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JAPANESE TRADE BARRIERS TO FOREST PRODUCTS

HEARING

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL TRADE

OF THE

COMMITTEE ON FINANCE

UNITED STATES SENATE

ONE HUNDRED FIRST CONGRESS

FIRST SESSION

JUNE 22, 1989

(Part 1 of 2)

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CONTENTS

OPENING STATEMENTS

	Page
Baucus, Hon. Max, a U.S. Senator from Montana, chairman, Subcommittee on International Trade	1
Packwood, Hon. Bob, a U.S. Senator from Oregon	3
Symms, Hon. Steve, a U.S. Senator from Idaho	20

COMMITTEE PRESS RELEASE

Finance Subcommittee on Trade To Hold Hearing on Japanese Forest Product Barriers	1

ADMINISTRATION WITNESSES

Phillips, Donald M., Assistant U.S. Trade Representative for Industry, Office of the U.S. Trade Representative	4
Dunn, Alan, Deputy Assistant Secretary for Basic Industries, Department of Commerce	6

PUBLIC WITNESSES

Cullen, Barry M., president, National Forest Products Association, Washington, DC	11
Anderson, Robert G., director, market research and economic services, American Plywood Association, Tacoma, WA	12
Lovett, Stephen M., international trade vice president, National Forest Products Association, Washington, DC	14
Donnelly, Robert L., chairman, Industry Sector Advisory Committee for Lumber and Wood Products, and president, Contact Lumber, Portland, OR	16

APPENDIX

Alphabetical Listing and Material Submitted

Anderson, Robert G.:	
Testimony	12
Prepared statement	23
Baucus, Hon. Max:	
Opening statement	1
Cullen, Barry M.:	
Testimony	11
Prepared statement	25
Donnelly, Robert L.:	
Testimony	16
Prepared statement	26
Dunn, Alan:	
Testimony	6
Prepared statement with attachment	27
Lovett, Stephen M.:	
Testimony	14
Prepared statement	36
Packwood, Hon. Bob:	
Opening statement	3

Page

Phillips, Donald M.:
Testimony 4
Prepared statement 38
Symms, Hon. Steve:
Opening statement 20

JAPANESE TRADE BARRIERS TO FOREST PRODUCTS

THURSDAY, JUNE 22, 1989

U.S. SENATE,
SUBCOMMITTEE ON INTERNATIONAL TRADE,
COMMITTEE OF FINANCE,
Washington, DC.

The hearing was convened, pursuant to notice, at 2:02 p.m., in room SD-215, Dirksen Senate Office Building, Hon. Max Baucus (chairman of the subcommittee) presiding.

Also present: Senators Packwood, Chafee, and Symms.

[The press release announcing the hearing follows:]

[Press Release No. H-38, June 16, 1989]

FINANCE SUBCOMMITTEE ON TRADE TO HOLD HEARING ON JAPANESE FOREST PRODUCT BARRIERS

WASHINGTON, DC—Senator Max Baucus (D., Montana), Chairman, announced Friday the Subcommittee on International Trade will hold a hearing on Japanese trade barriers that block U.S. forest product exports.

The hearing is scheduled for Thursday, June 22, 1989 at 2 p.m. in room SD-215 of the Dirksen Senate Office Building.

"Japanese barriers to U.S. forest product exports are costing the U.S. as much as $1.2 billion in lost exports each year. With the strong support of Senator Packwood and myself, the Administration has recently launched a Super 301 investigation aimed at eliminating these barriers," Senator Baucus said.

"The purpose of this hearing is to discuss the U.S. goals for this Super 301 investigation and to discuss strategy," Baucus said.

OPENING STATEMENT OF HON. MAX BAUCUS, A U.S. SENATOR FROM MONTANA, CHAIRMAN, SUBCOMMITTEE ON INTERNATIONAL TRADE

Senator BAUCUS. The subcommittee will come to order.

On May 26, the United States took a big step toward establishing an effective trade policy. After weeks of heated internal debate, the Bush Administration began implementing the Super 301 provision of the 1988 Trade Act.

Three countries—Japan, Brazil, and India—were identified as Priority Countries under Super 301. Within those three countries, the Administration isolated six trade barriers—three in Japan, one in Brazil, two in India—that the United States would concentrate its energy in eliminating those barriers over the next year.

The topic of this hearing is one of the barriers isolated under Super 301: The Japanese barriers to U.S. forest product exports.

The Super 301 decision received attention around the world. It was widely criticized in Japan and even by some U.S. editorial

writers. It is argued that the United States was trying to blame all of its trade problems on Japan, and that the real problem was that U.S. industry couldn't compete, and that the United States couldn't control its budget deficit.

Unquestionably, some U.S. industries do have trouble competing, and the United States should control its budget deficit. We are working to address these problems. And the United States recently launched a structural impediments initiative to engage Japan in a substantive discussion on some of the broader economic causes of the trade imbalance. But there are industries that are kept out of Japan by trade barriers.

An excellent case in point is the U.S. forest products industry. U.S. forest products are kept out of the Japanese market by a web of trade barriers. As testimony today will make clear, the U.S. forest products industry is a world-class competitor.

Consider a few facts:

The U.S. forest products industry is the most efficient and productivity in the world. Productivity in the forest products sector is improving at a rate three times faster than the economy-wide average.

The U.S. industry is a leading producer and exporter of all major softwood and hardwood lumber products, ranging from plywood to construction lumber.

The U.S. forest products industry is already exporting a significant amount of lumber products to Japan, but Japan maintains a complex system of trade barriers that encouraging importation of raw logs and discourage importation of finished forest products.

The Department of Commerce recently finished a study of these Japanese forest products barriers. The report spent three pages merely listing trade barriers that U.S. forest products exporters face in Japan. These barriers range from discriminatory standards, to subsidies, to unreasonably high tariffs.

In short, the issue is simple: U.S. forest products are not kept out of Japan by the U.S. budget deficit, by inefficient American plants, or sloppy business practices, or by exchange rates. The U.S. forest products are kept out of Japan by a complex web of trade barriers.

Last year, because of these barriers, 70 percent of U.S. forest products exports to Japan were logs and other unfinished products. These barriers deprive The West of needed export dollars, and they deprive American mill workers, including workers from my State, of jobs.

Reliable estimates indicate that The West could export as much as an additional $1.2 billion in forest products each year if Japan simply removed its trade barriers. These new sales would mean new jobs in mills in Montana and Oregon, Idaho, Arkansas, and elsewhere.

With Super 301, the United States has put Japan on notice: "We will no longer tolerate these trade barriers. You will open up the Japanese market to quality U.S. export plywood and export lumber. You will sell finished forest products made in Montana, made in Oregon, made in Arkansas, made in States across the country."

Certainly, trade barriers should not provide an excuse for inaction on other economic problems, but neither should these other

economic problems provide an excuse for inaction on trade barriers.

I hope critics of Super 301, both in Japan and in the United States, will take a hard look at this case study and others like it before speaking or writing further on the subject. I also would urge the representatives of the Japanese press present to listen carefully to the testimony given today.

Several weeks ago there were prominent stories in major Japanese newspapers indicating that the U.S. forest products industry was divided over Super 301. These new stories quoted representatives of the American Plywood Association and the Western Wood Products Association in Japan that criticized Super 301. These representatives were not speaking for the organizations they represent.

Both the American Plywood Association and the Western Wood Products Association strongly support the Super 301 investigation into Japanese forest products trade barriers. Both these organizations have representatives here today to testify to their position. I hope as much attention is given to the official position of these organizations as was given to the unauthorized comments of their representatives in Japan.

I will now turn to Senator Packwood of Oregon, the ranking member of the full committee, a very, very effective member of this committee and someone whom I often turn to for advice on trade matters generally, but certainly with respect to the forest products industry.

Senator Packwood?

OPENING STATEMENT OF HON. BOB PACKWOOD, A U.S. SENATOR FROM OREGON

Senator PACKWOOD. Mr. Chairman, thank you, and thank you for holding this hearing on a subject that is of great concern to both my State and your State.

Over the years representatives of the timber industry have frequently told me that they could sell infinitely more wood products in Japan if we could eliminate Japan's tariff barriers to wood products and other unfair trade barriers.

For this reason, I asked the Commerce Department to undertake an investigation of these allegations.

Several months ago the Commerce Department delivered to me a dynamite report which demonstrates that Japan maintains a web of tariff and non-tariff barriers to U.S. wood products. Barriers highlighted in the report include technical standards, tariff misclassifications, and government subsidies to the domestic industry.

The Commerce report laid the groundwork for the U.S. Trade Representative's recent decision to name Japan's wood products practices on the Super 301 list. I was quite pleased with the Trade Representative's decision. The elimination of these trade barriers to wood products is now one of the Administration's top priorities.

As the Administration starts its investigation of Japan's trade barriers to U.S. wood products, I want to encourage them to make it tough and aggressive and thorough. From Oregon's standpoint, we can ill afford to tolerate these practices any longer.

I am interested in learning more details about these barriers and look forward to hearing the testimony of the excellent and experienced witnesses we will have before us today, and especially that of Robert Donnelly, who is the president of Contact Lumber in Portland, OR.

Thank you, Mr. Chairman.

Senator BAUCUS. Thank you, Senator Packwood.

Our first panel today is a series of two witnesses. The first is Mr. Don Phillips, the Assistant USTR for Industry, Office of the USTR; and the other is Mr. Alan Dunn, Deputy Assistant Secretary for Basic Industries, Department of Commerce.

I am limiting each witness to 10 full minutes. The prepared statements of all witnesses will be included automatically in the record, and I encourage witnesses to take advantage of that; that is, to summarize the high points of their testimony. For witnesses on the first panel, 10 minutes each. For witnesses on the second panel, I will limit them to 5 minutes each.

Mr. Phillips, why don't you proceed?

STATEMENT OF DONALD M. PHILLIPS, ASSISTANT U.S. TRADE REPRESENTATIVE FOR INDUSTRY, OFFICE OF THE U.S. TRADE REPRESENTATIVE

Mr. PHILLIPS. Thank you, Mr. Chairman and Members of the Subcommittee.

I have submitted a written statement; so, in line with your directive, I will highlight the main points of that submission.

My name is Donald Phillips, and I am the Assistant U.S. Trade Representative for Industry. I appreciate the opportunity to appear before this subcommittee to discuss Japan's barriers to U.S. forest product exports and the Super 301 investigation we recently initiated to examine these practices.

As you are well aware, on May 26 Japan was identified as a Priority Country, and its barriers to trade in the forest products sector were identified as Priority Practices under the 1988 Trade Act.

On June 16 we initiated our investigation of Japanese policies and practices that restrict imports of forest products, in order to determine if they are actionable under Section 301 of the Trade Act. To assist in this process, we have requested public comments by July 18.

Both our May 26 determination and the subsequent 301 announcement specifically cited technical barriers or standards as an area of serious concern. However, our investigation will cover other non-tariff barriers as well.

As a follow-up to our initiation of the Section 301 investigation, we have assembled an inter-agency team to assess the information at our disposal and information we will receive in response to our request for comments. We will be consulting with the U.S. private sector and interested members of Congress as this process unfolds. We hope to have initial discussions with the Japanese on forest products issues in the very near future, although no meetings have yet been scheduled.

Forest products is an area of particular interest from a trade policy perspective for a number of reasons:

First of all, as you have pointed out, we believe U.S. producers have a clear competitive advantage over producers in Japan and the rest of the world for many products in this sector.

Second, Japanese imports of forest products are stifled by a complex array of tariff and non-tariff barriers. Moreover, many of these barriers are clearly designed to discourage imports of high value-added products and, instead, foster imports of raw materials.

Third, the potential for exports if such barriers are reduced or eliminated is great.

Finally, as is often the case with our trade liberalization objectives, the dismantling of unreasonable barriers to forest products would provide major benefits to Japanese consumers. We believe it would help provide Japanese consumers with lower-cost and higher-quality housing.

The designation of forest products as a Super 301 investigation reflects the long-term interest of this and prior Administrations in removing Japan's barrier to trade in this sector.

Forest products were included as one of the market-oriented sector-specific, or so-called MOSS talks, held with the Japanese. These talks produced important, if incomplete, results in the areas of tariffs and standards.

Despite the progress we achieved in the early stages of the MOSS talks, however, little has been accomplished in recent years. I think it is fair to say that the failure of the MOSS talks to yield additional progress was an important factor in the Super 301 determination.

I have alluded several times to the complex array of barriers facing U.S. forest products exports; I would like to outline very briefly some key areas of concern.

First of all, technical barriers to U.S. exports include dated building and fire codes which continue to restrict the use of wood products, based on obsolete tests and testing standards.

Second, tariff misclassifications and generally high tariffs on processed wood products are a major problem. Standards certification procedures are also troublesome, being both time-consuming and burdensome to foreign producers.

There are also a variety of government subsidies to both timber owners and processors that are of concern to us.

We hope to initiate a dialogue with Japan in whatever fora are appropriate on all of these areas of concern, and to include any other practices which have the effect of impeding U.S. forest product exports.

Our goal is to fully open the Japanese forest products market. We can be flexible as to the procedure we will follow to achieve this objective, as long as it allows us to deal in a substantive manner with the issues of concern. We are eager, however, to begin these discussions soon, and we have made the Japanese government aware of our timetable.

Thank you.

[The prepared statement of Mr. Phillips appears in the appendix.]

Senator BAUCUS. Thank you, Mr. Phillips.

Mr. Dunn?

STATEMENT OF ALAN DUNN, DEPUTY ASSISTANT SECRETARY FOR BASIC INDUSTRIES, DEPARTMENT OF COMMERCE

Mr. DUNN. Thank you, Mr. Chairman and members of the committee.

My name is Alan Dunn. I am the Deputy Assistant Secretary for Basic Industries, and I am pleased to have this opportunity to discuss with you the subject of Japanese barriers to trade in the wood products area.

As Senator Packwood noted, the Department has recently published its findings in a study entitled "The Japanese Solid Wood Products Market—Profile and Outlook."

First let me say that every attempt was made to do a thorough and insightful analysis of the Japanese market and consumption patterns. It is our hope that this study will prove to be a useful tool to U.S. exporters and negotiators.

The increase in solid wood products exports to Japan in recent years is one of the more significant success stories regarding U.S. trade with Japan.

In 1985, U.S. exports of solid wood products to Japan were valued at $1.1 billion. By 1988, such exports were valued at $2.2 billion—a 100-percent increase. Certainly, the bilateral market-oriented sector-specific talks of 1985 to 1988 were a major factor in the increase. Still, the recent Department of Commerce study indicates that removal of the remaining impediments to trade could significantly increase U.S. solid wood exports to Japan.

Before discussing some of these impediments to trade I would like to point out that the study clearly shows that the U.S. solid wood industry is more cost-efficient than its Japanese counterpart. This means that expansion of our products in Japanese markets should benefit the Japanese consumer as well as U.S. producers of solid wood products.

A major factor in impeding further increase in exports is the structure of the Japanese tariff schedule: Logs are allowed in at a duty-free rate, while processed wood products face tariffs of up to 20 percent. This allows the Japanese wood products industry to import duty-free the raw material necessary to produce a value-added product, while the similar U.S wood producer must, in reality, pay a tariff on both the value of the raw material as well as the value-added portion of the product, which yields an effective rate of protection for the Japanese industry that is more than double the nominal tariff rate.

Another factor is soaring real estate costs, especially in the Tokyo metropolitan area. This constrains housing starts and thus wood usage, and while this is a complex issue that goes to the heart of Japanese land-use policy, it has been studied for many years and remains unresolved. Without land reform, this acreage will continue to be unavailable for housing.

Restrictions imposed by the Japanese Government on wood usage in both residential and non-residential buildings are an additional impediment to increased exports. Lifting or amending these restrictions could bring the per-capita usage of wood in Japan closer to that of other industrialized nations. And, in a related issue men-

tioned by Mr. Phillips, the antiquated building and fire codes must be changed.

Customs discrepancies and tariff misclassifications are another impediment to trade. We see a series of examples that are described in greater detail in the attachments to my complete testimony.

Another factor which impedes solid wood trade with the Japanese are the Japanese Agricultural Standards [JAS]. All wood products used in American-style housing as well as all government-financed housing must meet these standards and carry the JAS stamp, at considerable time and expense, or face having their products graded in Japan, which is a trying situation in particular for plywood producers, resulting in delays of several weeks.

The pattern of subsidization of many of the costs has been outlined also in the attachments to my testimony. It has been addressed by Mr. Phillips, so I won't go into that in any greater detail.

There is also a complicated and costly distribution system that has evolved over many years, making it difficult for foreign producers to market their products in Japan. A concerted effort to understand this distribution system is required if foreign producers are to compete successfully.

Finally, I think the questionable marketing practices of some Third World countries are causing major disruptions for the Japanese hardwood plywood producers, and they are losing very rapidly a share in their own market. As a result, they are becoming increasingly protective of their plywood market. That means that there is very little prospect of tariff reductions on softwood plywood, which is the major U.S. plywood export product.

Let me close by stating I believe the progress made in increasing exports of solid wood products to Japan can be continued in at least three ways:

First, by aggressive negotiations as part of the Super 301 process. The Department of Commerce is committed to actively and fully support the USTR in these negotiations.

Second, the Uruguay Round of multilateral trade negotiations provides an excellent opportunity to encourage the opening of the Japanese market in the context of general world-wide trade liberalization.

Third, a resumption of bilateral talks could make our concerns more clear to the Japanese government and to the wood products consumers in Japan.

We at the Department of Commerce stand ready to continue all of these efforts and to answer any of your questions.

[The prepared statement of Mr. Dunn appears in the appendix.]

Senator BAUCUS. Thank you both, gentlemen, very much.

I would like to know how broad the scope is in the USTR's and Commerce as to the American efforts in Japan to reduce and knock down discriminatory barriers. I know that the Administration is addressing standards. Mr. Phillips, I think you also mentioned tariffs and misclassifications, cartel arrangements, perhaps the distribution system.

Could both of you a little more fully describe the breadth and depth, and the scope, of your efforts insofar as not limited only to

standards? And in your answer, are there any areas you thought of considering but rejected? And if so, why?

Mr. PHILLIPS. Thank you, Mr. Chairman.

As I mentioned earlier, we did specifically cite technical standards in making the determination on May 26. However, we have cast our investigation very broadly, and we intend to look at not only that point but non-tariff concerns as well, and that would include tariff misclassification.

More generally than that, we are interested in entering into a very broad dialogue with the Japanese on all barriers, all practices which might impede our exports. So, at this point, we do not wish to limit the range of policies or practices that we will want to discuss. And again, as I said, we have cast our 301 investigation very broadly so as to not at this time prejudge what might be appropriate areas for negotiations.

Senator BAUCUS. But as a practical matter, does that also mean tariffs? Because even though tariffs are not precisely an unfair trade practice under the GATT, the negotiator addressed all of the other barriers, and as a practical matter in working out negotiations, you might also address tariffs. Is that correct?

Mr. PHILLIPS. We will certainly want to discuss tariffs with the Japanese Government in this context; and, as Mr. Dunn pointed out, we would also have an opportunity to address these questions in the Uruguay Round, as well.

Mr. DUNN. May I add something there, Senator?

Senator BAUCUS. Certainly, Mr. Dunn.

Mr. DUNN. Tariff misclassification is something that is not foreign to the problem we have here; but we are looking at the tariff misclassifications issues on particular products as well, and of course we will share all of that information with your staff.

Senator BAUCUS. We appreciate that.

Does the Administration intend to file under the GATT, or not?

Mr. PHILLIPS. At this point no decision has been made on that point. I think we want to investigate the barriers and make a decision on that later on.

Senator BAUCUS. What is your thinking at this time? That is, what are the pros and cons? It seems to me there is an argument for filing, because if there is a GATT determination favorable to the United States, it of course gives more enforcement authority and power under 301.

Mr. PHILLIPS. Well, I think the statute would require that we make a decision as to whether we would initiate GATT dispute settlement within 150 days. That is in the Trade Bill. So, we will be required to do that. Before doing so, though, I think we will want to receive the public comments and carefully evaluate the merits of proceeding that way vis-a-vis on a bilateral basis.

Senator BAUCUS. Well, what lessons are there from the MOSS talks? I ask that because several years ago, after President Reagan and Prime Minister Nakasone met in California and listed the four areas in which the two countries would work to reduce Japanese barriers—one, obviously, then was processed forest products—1, 2 or 3 months later, traveled to Japan and met with the person in Japan who headed the agency charged with controlling and regulating the Japanese forest products industry. I said to him, "I am a

Senator from the United States, and I want to follow up on those MOSS talk agreements, and I want to help those in Japan to follow up on and eliminate the barriers to processed forest products."

He sat opposite me and said, "Senator, my job is to protect the Japanese forest products industry"—pure and simple. He didn't care one whit what his Prime Minister had said.

Therefore, it is clear to me that he either didn't get the message, or did get the message, or we didn't quite have the organizational network that we should have had in order to follow up more efficiently.

What can you tell me now about American organizational efforts? The USTR is in the lead; but, working with Commerce and so forth, what can you tell us now to help reassure us that we will be successful this time around, even though we weren't as successful as we should have been under the MOSS talks?

Mr. PHILLIPS. Well, Senator, in terms of the lessons from the MOSS talks, I think one lesson would be that, if we get the barriers down, we can increase our exports; because, even though we did not have as much success as we wanted, we did have some success in MOSS, and we have seen a substantial increase in our exports. So we think that is one lesson.

I think the other lesson, and perhaps it is more of a lesson for the Japanese than for us, is that we are not going to sit still if we can't make progress in these talks. We were unable to make progress in the MOSS talks, and we are now proceeding on another track.

Senator BAUCUS. Was disorganization part of the problem last time?

Mr. PHILLIPS. I don't think the organization was necessarily a part of the problem. As you say, apparently we did not get the message across that we needed more progress in this area. The MOSS talks were effective in making some progress, but then about a year or so ago we were unable to make any further progress, so we are continuing to push the issue.

Senator BAUCUS. I suppose, too, the enforcement provisions under 301 we would hope would be more helpful this time around.

Mr. PHILLIPS. Certainly they will be a factor in it.

Senator BAUCUS. Thank you.

Senator Packwood?

Senator PACKWOOD. Thank you, Mr. Chairman.

Mr. Phillips, Ambassador Hills has said she is willing to resolve the trade practices listed under Super 301 outside of the 301 negotiating network, if necessary. I am curious. If we go outside 301 and there is no resolution, what happens to retaliation?

Mr. PHILLIPS. Well, I think, in terms of going outside or inside of the process, I believe the USTR's view would be, "We don't care what we label the negotiations or discussions. What counts for us is results."

301 really is an internal procedure, and of course we would be bound by that procedure. But in terms of the negotiations or discussions, I don't think how we label them is that important. What counts is the results we achieve.

Senator PACKWOOD. Can you retaliate? Let us say you are talking under MOSS talks, or you are doing something like that and it is

not a 301 proceeding, can you still retaliate if at the end you don't get any resolution?

Mr. PHILLIPS. Well, the labeling or the fora of the talks certainly wouldn't change the situation with regard to our 301 statute.

Senator PACKWOOD. Great.

Thank you, Mr. Chairman. That is the only question I had.

Senator BAUCUS. I have a follow-up question: Have you quantified the degree of the barrier? In some way, have you totaled up the barriers and reached a quantified result?

Commerce says that the barriers are about $1.1 billion, if I understood Mr. Dunn correctly.

Mr. DUNN. We have a range of different answers based on the methodology we apply to the question. It is clearly well over half a billion dollars, and it may be well over a billion dollars of potential market.

Senator BAUCUS. I asked the question for this reason: I know that when the United States was attempting to reach an agreement with Japan for Japan to reduce its quota on beef, for example, that the negotiations were interminable—they went on forever. And finally our negotiators realized that maybe they could make some progress if they quantified the degree of the barrier. They came up with a number, like 672, and finally they started making progress, because the Japanese negotiators could much more easily deal with something that is quantified than not; that is, with a specific number than with a principle.

And sure enough, they reached an agreement. Instead of 642, or whatever it was, they reached to an agreement which amounted to 630. Those aren't the figures, but that was essentially what happened.

I encourage you, as you proceed here, to find some way to quantify the total amount of barriers, because my guess is we will be able to reach a resolution more quickly, if we do, than if we are arguing principles and standards, for example, or tariff misclassification, and so on and so forth. I think it is very important to put some specific numerical numbers to the amount of the barriers.

I have no further questions. Thank you very much for your help.

Thank you.

Mr. PHILLIPS. Thank you.

Mr. DUNN. Thank you.

Senator BAUCUS. Our next panel is Mr. Robert Anderson, director of market research and economic services for the American Plywood Association, from Tacoma, WA. In addition, Mr. Barry Cullen, president, and Stephen Lovett, international trade vice president, of the National Forest Products Association; and Mr. Robert Donnelly, who is the chairman of the Industry Sector Advisory Committee for Lumber and Wood Products, and president of contact lumber, from Portland, OR.

Mr. Anderson, you are first on the list, and you are on my left and at the top of the alphabetical list, as well. Why don't you go ahead?

Mr. ANDERSON. Mr. Chairman, may I defer to Mr. Cullen, who is the first presenter in the panel?

Senator BAUCUS. Yes, you may.

Mr. CULLEN. Thanks, Senator.

STATEMENT OF BARRY M. CULLEN, PRESIDENT, NATIONAL FOREST PRODUCTS ASSOCIATION, WASHINGTON, DC

Mr. CULLEN. Chairman Baucus, Senator Packwood, I am Barry Cullen, president of the National Forest Products Association, which represents the interests of over 750 member companies and allied organizations throughout the United States. On the panel with me today, in the order of their appearance, are Bob Anderson, director of market research and economic services at the American Plywood Association; Steve Lovett, vice president of international trade at the National Forest Products Association, and Bob Donnelly, president of contact lumber and chairman of the Wood Product Industry's ISAC.

First, I want to thank you, Chairman Baucus and Senator Packwood and the members of this subcommittee for their outstanding efforts and support in opening the Japanese market for U.S. wood products.

We know that Congressional interest in this issue was pivotal in focusing government attention on the Japanese barriers and thus listing wood products as a priority by the USTR. I appreciate the opportunity to appear today to discuss the efforts of the U.S. forest products industry and the U.S. Government to open the Japanese wood products market to free and fairer competition.

On May 26, the U.S. Trade Representative identified Japan's barriers to wood products trade as a Super 301 priority practice for trade liberalization. That decision was justified by the many barriers which impede U.S. exports of solid wood products to Japan, even though our mills have demonstrated their international competitiveness. These same barriers, and others, unnecessarily impede the consumption of wood products in Japan. As a result, competitive U.S. mills and the Japanese consumer are injured. The National Forest Products Association fully supports the decision to make these barriers a trade liberalization priority.

Now, pursuant to the Super 301 provision, the USTR has self-initiated a Section 302 investigation of Japan's wood products barriers and will soon enter negotiations to address those barriers. NFPA will continue to support our government's efforts as the Super 301 process proceeds.

NFPA is confident that all of the barriers to wood products identified by us and documented by the recent Commerce Department study will be addressed by USTR in their negotiations. Obviously, negotiations with Japan must be broad enough so that trade liberalization results in real increases in Japanese consumption and importation. It is essential to eliminate more than minor technical barriers to achieve effective entry to the Japanese market. The investigation and negotiations must be pursued aggressively to have a successful and real impact in the Japanese market.

We were very encouraged to hear Ambassador Hills acknowledge, during your hearing on June 14, that the full range of barriers, including tariff barriers, will be addressed in the negotiations. The reduction of tariffs during these negotiations is extremely important to our industry. Further, we were pleased to see that the USTR's self-initiation of a Section 302 investigation covers "the Government of Japan's policies and practices, including technical

standards favoring Japanese producers, that restrict imports of forest products." Thus, USTR is seeking comments on technical standards "or other non-tariff measures" affecting imports.

NFPA and the U.S. wood products industry have provided USTR with information concerning all of the barriers to the Japanese market which we believe must be included in the investigation and negotiations if they are to bear significant fruit. The Department of Commerce study has verified industry claims about Japanese barriers. We expect that the U.S. Government, with continuing support from the industry, will explore and document Japanese wood products barriers in the Section 302 investigation.

Generally, the Japanese barriers fall into several groups, which will be discussed in more detail by the other panelists. These groups include: standards barriers, customs misclassification, tariff escalation, subsidies, and discriminatory government procurement.

In addition, NFPA believes that the Administration's Structural Impediments Initiative should address anti-competitive practices in Japan's wood products industry, the restricted distribution system and restrictive land/tax policies which act to severely limit consumption of wood products.

We estimate that if these barriers were addressed and reasonable access to the Japanese market achieved, U.S. processed wood products exports to Japan could increase by from $1 to $2 billion annually.

There is another aspect of market access for wood products which I would like to briefly address, and that is its potential effect on the Japanese consumer.

Opening the Japanese wood products market would substantially reduce the cost of wood products to Japanese consumers and provide them with high-quality, reasonably-priced products which is desired in Japan. Opening Japan's market would help Japanese consumers, dramatically increase consumption of wood products in Japan, and benefit efficient U.S. producers. This is precisely the type of market-opening initiative which the United States should be engaged in.

Mr. Chairman, I speak for an industry which stands united in its request for access to the Japanese market. We are a competitive industry. With reasonable access to the Japanese market, we could dramatically increase exports for all products of our industry that are produced in virtually every State in the Union. What we want is an opportunity to do so.

We look forward to working with you and the Administration over the next year to effectively open this market.

Thanks for the opportunity to testify.

[The prepared statement of Mr. Cullen appears in the appendix.]

Senator BAUCUS. Thank you, Mr. Cullen.

Who is next? Mr. Anderson?

STATEMENT OF ROBERT G. ANDERSON, DIRECTOR, MARKET RESEARCH AND ECONOMIC SERVICES, AMERICAN PLYWOOD ASSOCIATION, TACOMA, WA

Mr. ANDERSON. Thank you, Chairman Baucus. We appreciate the opportunity to appear before the committee.

I am here, first of all, to express the strong support of the wood panel industry for the Bush Administration's decision to make Japanese import restrictions on U.S. wood products a high priority for new negotiations under Section 301 of the 1988 Omnibus Trade and Competitiveness Act.

We represent 80 percent of the structural panel producers in the United States.

The U.S. plywood industry has sought for 25 years to attain a reasonable measure of official acceptance in Japan; yet, we continue to be thwarted by both tariff and non-tariff barriers.

Of more than 1 billion square feet of U.S. panel products exported to various countries of the world last year, exports to Japan amounted to a meager 16 million feet, and that was shipped to a country where there is an obvious and significant demand for our products by the Japanese construction industry, and that industry builds as many houses as we do in the United States. In addition, the Japanese citizen typically prefers and desires wood housing.

We believe that without the host of import restrictions now in place in Japan, the structural panel market there could readily consume 25 to 30 times the present import volume, or some 500 million square feet annually.

Most of these restrictions are described in the recent Department of Commerce study and should be addressed under the Super 301 provisions, rather than within special discussion initiatives.

I won't belabor the fine points of the import restrictions, but I would like to comment on four areas that are of primary concern to our industry.

First, tariffs. Basic tariffs on plywood are 10 percent for sheathing grades and 15 percent for sanded grades, siding, and other specialties. The "effective rate of protection" resulting from the Japanese lack of tariffs on raw materials and high tariffs on finished goods escalate the tariffs dramatically.

The concept of "effective rate of protection" recognizes that a tariff applied to a finished product relates to the entire value of the product. When a Japanese producer pays no tariff on the imported raw materials to make that product, he has avoided tariff on a substantial part of the product cost. This savings, in effect, becomes an additional price advantage that the U.S. producer must overcome.

In plywood's case, this effective rate of protection has been calculated to be 26.5 percent for sheathing plywood and 39.8 percent for sanded, for plywood sidings, and other plywood specialties. Now, I guess you can well imagine the difficulty that a 40-percent increase in cost would be in an industry which typically trades its products on the basis of a dollar here and a dollar there.

The second area is product certification. While, technically speaking, U.S. 4x8 structural panels are accepted for construction in Japan, their use in actual practice is severely hampered by the Japanese demand that they carry the stamp of the Japan Agriculture Standard [JAS]. Providing this stamp is costly and time-consuming.

Although we are making progress in our effort to become a foreign-testing organization, there are differences in what we have been told recently and what was indicated when we first started the process back in 1985 in the MOSS talks. Back in 1985 it was

implied that we could actually serve directly for JAS. Now we learn that JAS inspectors and oversight will be required for each mill electing to apply JAS stamps to its products. This adds roughly $50,000 to each mill's costs to sell in Japan. In addition, there are continuing basic costs applied to each thousand feet, and we don't know exactly what they will be.

We feel the streamlining of this thing could be very well done by accepting the APA mark. APA is a grade stamp that assures the Japanese that the product will meet the Japanese standards. We feel that would be an easy way, a fast and simple way of reducing costs and reducing time.

The third are code restrictions.

Senator BAUCUS. Mr. Anderson, I am going to have to ask you to summarize, if you could, please.

Mr. ANDERSON. I would like to be able to answer questions on the code restrictions and the visa situation, if I may, in the questioning period.

I would like to summarize by making the point that we feel it is a very positive action on the part of the Administration to use the 301. We feel that it is necessary as a way to get Japan's attention. It gives us a chance to benefit from government and industry cooperation, and provides some teeth for gaining market entry.

Thank you.

[The prepared statement of Mr. Anderson appears in the appendix.]

Senator BAUCUS. Thank you, Mr. Anderson.

Mr. Lovett?

STATEMENT OF STEPHEN M. LOVETT, INTERNATIONAL TRADE VICE PRESIDENT, NATIONAL FOREST PRODUCTS ASSOCIATION, WASHINGTON, DC

Mr. LOVETT. Thank you, Mr. Chairman.

I am Steve Lovett, vice president of International Trade at the National Forest Products Association. Today I would like to review some of the barriers which continue to protect the Japanese wood products market from free competition from U.S. producers.

Without these barriers, U.S. exports of processed wood products could increase by between $1 and $2 billion annually. Tens of thousands of U.S. jobs could be created. NFPA fully intends to work with the Administration to ensure that the upcoming investigation and negotiations yield real results.

Today I would like to review the barriers in a little more detail, so the committee can understand what issues we believe should be addressed in the Section 302 investigation and negotiations if this effort is to be successful in gaining real access.

Under standards barriers, Japan has a system of arcane codes and standards which act as an effective barrier to the use of many wood products and to the importation of wood products.

The U.S. industry fully recognizes the need for reasonable standards to ensure adequate and safe performance of products; but, as a rule, Japan's standards and codes are not based upon the performance of products and ignore the demonstrated performance characteristics of U.S. products and wood products construction tech-

niques. Thus, while Japan bans, for example, the building of four-story wood residences or the building of stacked apartments made out of wood, these restrictions are not technically justified. Rather, these restrictions tend to act merely as barriers to the consumption and importation of wood products.

NFPA's submission to the U.S. Trade Representative outlines other such practices which I will describe and we will continue to work with USTR to identify Japan's standards barriers.

Customs misclassification: For example, the Harmonized System of Tariff Classification explicitly states that structural laminated lumber is properly classified in a category which in Japan is subject to only a 3.9 percent tariff. Japan has put it in the category subject to a 15- or a 20-percent tariff. This restriction is targeted very directly at the U.S. laminated wood products industry, which currently leads the world.

Tariff escalation: This is an extremely important issue. By applying no tariff to raw materials and escalating tariffs on value-added products, Japan creates a barrier which is far more effective at blocking the importation of value-added products than any nominal tariff on an individual product would suggest. This practice, normally engaged in by developing countries to protect infant industries, is totally unacceptable in a country like Japan.

NFPA believes that it is imperative that the upcoming negotiations seek to redress Japan's tariff escalation and high tariffs. Otherwise, Japan's effective rate of protection on value-added products, often twice the nominal rate, will continue to substantially impede wood products imports, even if other barriers are eliminated.

To elaborate briefly on Mr. Anderson's comment, and to put this practice into perspective, Japan's tariff escalation allows Japanese sheathing plywood producers to be more than 25 percent less efficient than U.S. producers and still be fully protected by the tariff, even though the tariff on this plywood is only 10 percent. Obviously, this tariff structure is far more effective as a protection than the nominal tariffs alone.

I would like to emphasize—and this is a point we really need to stress—that it is Japan's tariff structure itself that is a non-tariff barrier, and therefore justifiable under 301, which should be addressed in the Section 302 investigation and negotiations.

Subsidies: The most troubling Japanese wood products subsidies have been the more than $1 billion in counter-liberalization subsidies authorized to offset the market-opening effects of concessions made during the MOSS talks. In other words, while Japan entered into an international agreement to lower tariffs and modify standards, it subsidized its mills in an attempt to maintain the full level of pre-existing protection. This is totally unacceptable.

In addition, there are dozens of small, medium, and large Japanese government subsidy programs which have been implemented to protect, and keep operating, the otherwise non-competitive Japanese mills.

To summarize, U.S. wood products are shipped around the world. Comparing the fourth quarters of 1988 and 1987, our exports doubled in Australia, increased by 83 percent to Mexico, 75 percent to the Caribbean, but only increased 6 percent to Japan. The problem is not our ability to compete.

As an industry, we know that there are many things which must be done to effectively penetrate the Japanese market, and we are working diligently to do these things. The existence of the barriers we have listed, however, demonstrate that we will never effectively gain access to Japanese markets without eliminating these barriers.

Japan's interlocking web of barriers keep American products out by using unusual product standards, subsidizing inefficient producers, and setting very high tariffs.

NFPA was very pleased to see the Administration's self-initiation of the Section 302 investigation will address this network of barriers.

Our ultimate goals remain: Increased consumption of wood products in Japan, and greater sales of U.S. wood products in the Japanese market. NFPA is confident that the upcoming negotiations will be successful in reaching these goals.

Thank you Mr. Chairman.

[The prepared statement of Mr. Lovett appears in the appendix.]

Senator BAUCUS. Thank you, Mr. Lovett. We appreciate it.

Mr. Donnelly?

STATEMENT OF ROBERT L. DONNELLY, CHAIRMAN, INDUSTRY SECTOR ADVISORY COMMITTEE FOR LUMBER AND WOOD PRODUCTS, AND PRESIDENT, CONTACT LUMBER, PORTLAND, OR

Mr. DONNELLY. Senator Baucus, Senator Packwood, Senator Symms, I am Bob Donnelly, president of Contact Lumber and chairman of the Wood Products Sector Advisory Committee. These two positions have given me a perspective on Japan's wood products market and the Super 301 process which have led me to conclude that we must open the Japanese wood products market in the upcoming Section 302 negotiations.

Put simply, the United States should be selling more solid wood products to Japan, and it is fully capable of doing so. The U.S. industry would be selling more if the market were allowed to operate; but, instead, barriers inhibit imports, increase prices, and severely limit consumption of wood products.

As chairman of the ISAC, I am familiar with the concerns of our industry, an industry which is represented in virtually every State of the Union. These firms, and the people who run them and work in them, are some of the best, most efficient wood products operators in the world. We can, and want to, compete.

We know that there is a strong and growing demand for wood products in Japan, a demand which is inhibited by a number of factors. I have no question that the barriers identified by Steve and Bob in their comments exist, because our industry has to deal with them. I know that our mills are efficient, and they want to sell. I know that there is a huge potential market there, but these impediments continue to prevent us from attaining our real potential. The meaning of all of this is obvious and immediate: Japanese barriers mean less jobs at home; they mean lack of sales, and a lack of investment.

Most of us in the United States are more than willing to import competitive, quality Japanese products. And we see few if any barriers to our importing Japanese products. This simply makes it impossible to explain to competitive companies why their exports to Japan are impeded by barriers which hurt them and the Japanese consumer.

I would like to discuss Super 301 in the broader context of international trade.

Periodically, members of our ISAC meet with various Administration officials to discuss the industry's perspective on various trade initiatives. Lately, we have spent a lot of time addressing the Uruguay Round of GATT negotiations. In that process, the question arises as to what the industry is wiling to give up to get tariff or other concessions in the GATT.

As chairman of the ISAC, I can tell you that we have very little to give up. Our wood products markets are open. Furthermore, it seems to me that it misses the point to ask what we are willing to give up. The question should be whether a foreign market is closed. If it is, it should be opened.

Around the world we see tariffs on wood products of up to 100 percent. These are closed markets intended to protect inefficient, local industries and impede imports, and they should be opened. There should be no quid pro quo for opening closed markets.

The global perspective is what leads me to support the Super 301 process. The fact of the matter is, the United States faces closed markets in many sectors, in many countries. Given the fact that our markets overall are among the most open in the world, it is unreasonable to ask what the United States will give up to open foreign markets.

The United States has spent the last 40 years as a world economic leader, making trade concessions so that the world economy could continue to grow. At that time it was reasonable and appropriate that we did so. It is no longer reasonable and appropriate that we do that.

Super 301 is an effective tool—leverage—that can permit the United States to move forward with market opening without being in the position of having to make further bilateral concessions, which simply don't exist, in order to end unfair trade barriers.

Super 301 is a clear statement to competitive industries in the United States and to the world that the U.S. Government is insistent about opening closed, protected markets, through bilateral negotiations. With this in mind, I am enthusiastic about working with the Administration in using the Super 301 process to gain real access to the Japanese market, and to address Japanese forest products protectionism.

Like Barry and Steve, I am concerned that a narrow or technical approach to the Section 302 investigation and negotiations will result in the elimination of only narrow or technical barriers, with no real effect. Thus, it was very important that the Administration's self-initiation, and in the testimony on June 14, made it clear that the negotiations will seek to address the multitude of barriers, including tariffs, which act as a web to deny us effective entry to the Japanese market.

In the next several months, the industry will work with our Government to provide any additional information that may be necessary concerning the Japanese barriers; but, throughout this process, we must keep clearly in mind the need to address the Japanese barriers broadly. We know we have a competitive product, and we know there is a great demand existing. In the end, if there are not significant improvements in exports, we can be fairly assured that it is because we have not, as a practical matter, eliminated the group of barriers which act as an effective impediment.

As Chairman of the ISAC representing our industry's trade policy concerns, I want to take this opportunity to thank this committee, the Congress, and the Administration. The U.S. Government is attempting to focus on barriers to wood products around the world, and particularly in Japan. This must happen if there is to be any progress.

In focusing on those barriers, we are convinced that the Government will conclude that Japan does maintain significant barriers to protect its inefficient industry, and that these barriers injure competitive U.S. producers and Japanese consumers. Through this process of identification, we are hopeful that real progress can be made at eliminating these barriers, increasing Japanese consumption of wood products, and increasing U.S. exports of wood products to Japan.

As Barry indicated, that is our goal, and the industry is committed to achieving that goal.

Thank you.

[The prepared statement of Mr. Donnelly appears in the appendix.]

Senator BAUCUS. Thank you, gentlemen.

Is the industry united in support for the Super 301 action in Japan as far as forest products is concerned?

Mr. CULLEN. Absolutely, Senator.

Senator BAUCUS. Let us go down the line here.

Everybody is agreed that the industry is united.

Should the United States proceed with this action?

Mr. CULLEN. Yes.

Mr. LOVETT. Yes.

Senator BAUCUS. Is there any disagreement, so far as you are aware of, within the industry?

Mr. CULLEN. As far as we know, there is no disagreement.

Senator BAUCUS. You all agree?

Mr. CULLEN. Yes.

Senator BAUCUS. Good.

Mr. LOVETT. Absolutely, Senator, and thank you for asking that question. We all do agree, and we are unified on this issue.

Senator BAUCUS. Good. Finally somebody spoke up.

Mr. LOVETT. I wanted to give a clear answer there.

Senator BAUCUS. That is right. Don't be timid about it.

Is the industry satisfied with the Administration's strategy? Do you have any observations or any suggestions with respect to the Administration's strategy, based upon what you know of it?

Mr. CULLEN. I think, based on what we know of it, we think they are going in the right direction. We want to make certain that as many issues, including tariffs, are covered in the 301 negotiation as

possible. Obviously, they can't tell us what all of their strategic moves are going to be, but we very much want to get as many of these issues addressed very vigorously through the 301 process as possible.

Senator BAUCUS. In your best estimate, what is at stake here in terms of dollars and jobs? If the market were completely open, however you define it, in a reasonable definition of "a completely open market," what does that result in for U.S. jobs and an additional amount of sales? Your best guess.

Mr. CULLEN. I think our estimate of sales is $1 to $2 billion a year. In terms of jobs, I am less clear on that.

Steve, do you have an answer?

Mr. LOVETT. I don't know exactly what that would mean in terms of jobs. It would be over 10 thousands based on a conservative estimate of $1.2 billion per year increased sales. That is based upon our industry's current level of productivity, which is high, on consumption levels around the world in developed countries, and on other economic factors that go into the $1.2 billion figure.

Senator BAUCUS. As I understand it—is it USTR's estimate that it is less than that? Is that correct? I heard somewhere that the USTR's estimate is that it is less than that, and I am curious.

Mr. CULLEN. Less than $1 to $2 billion?

Mr. ANDERSON. Their estimate, as reported today, was up to $1 billion, and I think we are saying that it could be substantially more than that.

In working with the structural panel industry, we specifically made an estimate. We feel that the Japanese market should regularly support a demand for half a billion feet. This represents roughly four structural panel mills with in the neighborhood of 8,000 employees.

Senator BAUCUS. I have no further questions, just an observation, and that is that it is very heartening and rewarding to see the industry so aware of and so sophisticated in its knowledge of Japanese practices. If we were holding a meeting like this several years ago, I think that most American industries would not be quite as aware of what is going on. It is certainly clear to me that the American forest products industry is very much aware of what is going on, and, frankly, I compliment all of you for the degree to which you have looked into and figured out what is happening. It will help us, in a mutual effort—government and private—to get some results. I want to compliment you for that.

Mr. CULLEN. Thank you, Mr. Chairman.

I should add, I think our awareness is due in good part to your strong support, Senator Packwood's support, and Senator Symms' support in past trade issues that we have had over the last several years. We have been successful in some important areas.

I would also like to add that, in terms of the amount of dollar volume of business that will be increased because of this effort, it occurs to me that it does turn in some degree on how aggressive and how successful the Administration is in opening these markets.

Senator BAUCUS. Thank you.

Senator Packwood?

Senator PACKWOOD. Mr. Chairman, I want to collectively thank these witnesses, not just for today but for the help that you gave

and the information you gave so that this report could be put together by the Department of Commerce. Frankly, it is a pleasure to have an industry come before us that is not bleating and complaining and wanting voluntary restraints and protections against imports.

There is no question, we have a comparative advantage in wood. We have a better quality of wood than most of the world, we have got more efficient industries than anybody in the world, and we can compete any place in the world.

As far as I am concerned, Max Baucus, Steve Symms, and I, and this committee, are going to do everything we can to make sure that you get fair access—which is all you are asking. You are not asking for any protection from anybody; you are not asking from any subsidies from the Government; you are not asking for any kind of preference overseas, just fair access.

When we get it, I will make you a bet that you are not talking about $1 billion or $2 billion, because we are talking about only Japan in this study. If the Department of Commerce would extend this study to other countries, I will bet you are talking, in the next 5 to 10 years, in the neighborhood, if we can get these barriers down, of $5 to $10 billion in sales throughout the rest of the world. And as far as I am concerned, you will have my help to do it.

Mr. CULLEN. Thank you very much, Senator.

Senator PACKWOOD. Thank you, Mr. Chairman.

Senator BAUCUS. Senator Symms?

OPENING STATEMENT OF HON. STEVE SYMMS, A U.S. SENATOR FROM IDAHO

Senator SYMMS. Thank you very much, Mr. Chairman, and Senator Packwood.

I want to share in the compliments to all four of you and for the industries ability to make this case and make the story. I have been very pleased with the response we have had from the Special Trade Ambassador on this issue in private discussions that I have had with her on following through on this.

Now, Mr. Lovett, I think you made a good point about the tariff structure becoming a non-tariff barrier itself as the more value is added to a product.

A company that is based in Boise but also has a plant in Oregon, T. J. International, makes a very highly value-added product, with respect to veneers. I think this piece of wood formed into an I-beam is as strong as a 2x10, so it is a highly value-added product. It is a natural to export, because it is light, and it is a good thing for us to produce in this country.

The Japanese have reclassified the tariff on that one to where now, instead of having the old, lower rate on it, they have increased that tariff to 20 percent. I mean, it is outrageous. It is clearly a case of putting them at a market disadvantage to where they can't compete. The Japanese then can in fact develop their own industry by copying these products, but they have protection for the copy-cats. We simply can't let those things go unnoticed without a real fight.

You will get all the support I can give you on those kinds of issues.

Thank you, again, Mr. Chairman.

Senator BAUCUS. Thank you very much, Senator. Thank you, Senator Packwood, and I thank all of the panelists. It has been very helpful, and we appreciate the time and effort you have taken to come and join us.

Mr. CULLEN. Thank you for your support.

Senator BAUCUS. The subcommittee is adjourned.

[Whereupon, at 3:05 p.m., the hearing was completed.]

APPENDIX

Alphabetical Listing and Material Submitted

Prepared Statement of Robert G. Anderson

Chairman Baucus, members of the Committee, I am Robert Anderson, Director of Market Research and Economic Services of the American Plywood Association. Our organization represents the interests of producers of approximately 80 percent of the softwood plywood, oriented strand board, and other structural wood panel products manufactured in the United States.

Thank you for this opportunity to appear before the Subcommittee on International Trade. I am here today to express the strong support of the wood panel industry for the Bush Administration's decision to make Japanese import restrictions on U.S. wood products a high priority for new negotiations under Section 301 of the 1988 Omnibus Trade and Competitiveness Act.

We, like you, of course, do not wish to initiate a trade war with Japan. On the other hand, the Japanese Government's long-standing recalcitrance in making substantive and reasonable changes to its unfair tariff and nontariff barriers to U.S. finished wood products more than justifies application of the "Super 301" provisions of the U.S. trade law.

The U.S. plywood industry has sought for 25 years to attain a reasonable measure of official acceptance in Japan. Yet we continue to be thwarted by both tariff and nontariff barriers. Of more than a billion square feet of U.S. panel products exported worldwide last year, exports to Japan amounted to a meager 16 million square feet, or less than two percent. And that, despite the clear demonstration of a real and significant demand for our products by the Japanese construction industry in a country building annually as many houses as we do in this country. And the typical Japanese citizen prefers and desires wood housing.

We believe that without the host of import restrictions now in place in Japan, the structural panel market there could readily consume 25 or 30 times the present volume—or some 500 million square feet annually. Most of these restrictions are described in the recent Department of Commerce study and should be addressed under the Super 301 provisions rather than within any special discussion initiatives.

I will not here belabor the fine points of all of the import restrictions that Japan now imposes on U.S. wood panel products, although I would be happy to answer your questions pertaining to those restrictions. What I do wish to do is address four areas of primary concern to our industry.

First, tariffs. Basic tariffs on plywood are 10 percent for sheathing grades and 15 percent for sanded grades, siding and other specialties. The "effective rate of protection" resulting from the Japanese lack of tariffs on raw materials and high tariffs on finished goods makes these tariffs even more difficult to overcome.

The concept of "effective rate of protection" recognizes that a tariff applied to a finished product relates to the entire value of the product. When a Japanese producer pays no tariff on the imported raw materials to make the end product, he has avoided tariff on a substantial part of the product cost. This savings, in effect, becomes an additional price advantage for a seller of finished products from the U.S. to overcome.

In plywood's case, this effective rate of protection has been calculated to be 26.5 percent for sheathing plywood and 39.8 percent for sanded plywood, plywood sidings and other plywood specialties. These are onerous tariff barriers. Details of this problem are documented in the recently published U.S. Department of Commerce study on the Japanese market.

Second, product certification. While technically speaking, U.S. 4x8 structural panels are accepted for construction in Japan, their use in actual practice is severely hampered by Japanese demand that they carry the stamp of the Japan Agriculture Standard (JAS). Providing this stamp is costly and time-consuming, and can readily be streamlined. APA grade identification is accepted in lieu of local quality acceptance programs in most countries. APA is the most competent and widely recognized organization in the world with regard to technical expertise and quality assurance capability on structural panels. Therefore, we do not understand why Japan demands duplicative quality assurance work and added cost.

Progress is being made the American Plywood Association in its application for recognition as a Foreign Testing Organization (FTO). However, there are differences in what we have been told recently and what was indicated when we first started the process during the MOSS talks in 1985. (We made our detailed application in June, 1988.) Back in 1985 it was implied that we could act directly for JAS. Now, we learn that JAS inspectors and oversight will be required for each mill electing to apply JAS stamps to its products. This adds roughly $50,000 to each mill's costs to sell in Japan.

With acceptance around the world—and more than 50 years of proven performance in demanding market applications—the APA mark is well recognized for quality. The quality meets Japanese standards, but, so far, the trademark has not been accepted.

Third, code restrictions. While code action has been taken as a result of the MOSS talks and our Summit House demonstration project, there remain many building and fire code restrictions which hamper all wood product use. One example is that recent changes in the building codes provide for three-story wood frame construction (formerly limited to two stories). However, three and four-story multifamily construction continues to be restricted.

This is primarily based on archaic fire standards from 1950. It is common in our country to provide fire containment by horizontal and vertical fire separation walls in multifamily construction. The Japanese deal only in vertical separation, which means no building can be built with one apartment above another. They even have fire testing procedures which fail a system that works so well it puts out the fire before the fire exposure time stated in the test protocol has expired.

A more realistic building code for wood frame multifamily structures of three to four stories would open up markets for as much as a billion square feet of structural panels and 1.5 billion board feet of lumber. And it would provide less costly housing for the Japanese. To change the codes would not only help the Japanese domestic industries, it would open good potential for U.S. forest product producers.

And fourth, visa issuance delays. While one segment of the Japanese Government has shown interest in expanding the use of wood construction—encouraging U.S. specialists such as framing carpenters to demonstrate our construction techniques—other branches of the government impede the training by delaying visa applications for months.

The uncertainty thus created can cause qualified trainers to abandon teaching invitations from Japan. Not knowing when a visa will be issued, they opt instead for a domestic job on a more predictable schedule.

Immediate Japanese action to remove the visa obstacle would greatly benefit the demonstration projects we have under way in timber frame construction—and would be an indication of their good faith in moving toward a more open marketplace. This is indicative of the market entry barriers that frustrate us as we try to develop sales to Japan.

I'd like to sum up by stressing that the U.S. structural panel industry most of all desires a fair chance to sell its products and systems in Japan. We've had 25 years of delaying tactics. It's long past time for a change.

We have already succeeded in demonstrating the merits of our systems and technology to a small but growing cadre of Japanese designers and builders. Considering the problems these people have overcome, it shows a real desire on the part of Japanese builders to trade with us.

The point is, that the choice should be made by the Japanese specifier and consumer, not by government officials who prevent those in the construction business from making decisions based on quality, performance and cost.

As has been emphasized by William T. Robison, President of the American Plywood Association, it is our sincere hope that the U.S. Administration can persuade the Japanese Government to remove or at least substantially modify its elaborate network of trade barriers. We certainly don't want a trade war.

A positive resolution of these trade barriers would not only benefit our U.S. structural panel industry and our balance of trade, but would be tremendously beneficial

to the Japanese people in providing them with more efficient and more affordable housing.

We are grateful for Super 301 because such action gets Japan's attention. In our 25 years of trying to sell our products to Japan, we have had our greatest success so far from the MOSS talks. The Super 301 action gives us another chance to benefit from government and industry cooperation, and provides some teeth for gaining market entry. Thanks very much.

PREPARED STATEMENT OF BARRY CULLEN

Chairman Baucus, Members of the Committee, I am Barry Cullen, president of the National Forest Products Association, which represents the interests of over 750 member companies and allied organizations throughout the United States. On the panel with me are Steve Lovett, vice-president of international trade at NFPA; Bob Donnelly, president of Contact Lumber and chairman of the forest products industry's ISAC; and Bob Anderson, Director of Market Research and Economic Services at the American Plywood Association.

First I want to thank Chairman Baucus and Senator Packwood and the members of this subcommittee for their outstanding efforts and support. We know that Congressional interest in this issue was pivotal in focusing Government attention on the Japanese barriers and, thus, the listing of wood products as a priority by USTR. I appreciate the opportunity to appear today to discuss the efforts of the U.S. forest products industry and the U.S. Government to open the Japanese wood products market to fair and free competition.

On May 25, the U.S. Trade Representative identified Japan's barriers to wood products trade as a Super 301 priority practice for trade liberalization. That decision was justified by the dozens of barriers which impede U.S. exports of solid wood products to Japan, even though our mills have demonstrated their international competitiveness. These same barriers, and others, unnecessarily impede the consumption of wood products in Japan. As a result, competitive U.S. mills and the Japanese consumer are injured. The National Forest Products Association fully supports the decision to make these barriers a trade liberalization priority.

Now, pursuant to the Super 301 provision, the USTR has self-initiated a Section 302 investigation of Japan's wood products barriers and will soon enter negotiations to address those barriers. NFPA will continue to support our government's efforts as the Super 301 process proceeds.

NFPA is confident that all of the barriers to wood products identified by us and documented by the recent Commerce Department study will be addressed by USTR in their negotiations. Obviously, negotiations with Japan must be broad enough so that trade liberalization results in real increases in Japanese consumption and importation. It is essential to eliminate more than minor technical barriers to achieve effective entry to the Japanese market. The investigation and negotiations must be pursued aggressively to have a successful and real impact in the Japanese market.

We were very encouraged to hear Ambassador Hills acknowledge that the full range of barriers will be discussed during your full committee hearing on June 14. Further, we were pleased to see that the USTR's self initiation of a Section 302 investigation covers "the Government of Japan's policies and practices, *including* technical standards favoring Japanese producers, that restrict imports of forest products." [Emphasis added.] Thus, USTR is seeking comments on "technical standards *or other* nontariff measures affecting imports." [Emphasis added.]

NFPA and the U.S. wood products industry have provided USTR with information concerning all of the barriers to the Japanese market which we believe must be included in the investigation and negotiations if they are to bear significant fruit. The Department of Commerce study has verified industry claims about Japan's barriers. We expect that the U.S. Government, with continuing support from the industry, will explore and document Japanese wood products barriers in the Section 302 investigation.

Generally, the Japanese barriers fall into several groups, which will be discussed in more detail by other panelists. These groups are:

—*standards barriers:* including building and fire codes and agricultural and industrial wood products regulations,

—*customs misclassification* of wood products, resulting in higher tariffs,

—*tariff escalation*, a means of structuring a tariff schedule which applies no tariff to raw materials and increasing tariffs to increasingly processed goods; this has the effect of increasing protection for processed goods well beyond the nominal

level of tariffs; thus, the structure of the tariff schedule itself acts as a non-tariff barrier,

—*subsides*, including counter-liberalization subsidies which have limited the effects of previous market liberalization, and

—*discriminatory government procurement* affecting some wood products.

In addition, NFPA believes that the Administration's Structural Impediments Initiative should address *anticompetitive practices* in Japan's wood products industry, the restricted *distribution* system and restrictive *land/tax policies* which act to severely limit consumption of wood products.

We estimate that if these barriers were addressed and reasonable access to the Japanese market achieved, U.S. processed wood products exports to Japan could increase by from $1 to $2 billion annually.

There is another aspect of market access for wood products which I would like to briefly address, and that is its potential effect on the Japanese consumer.

In recent years Japan has largely solved its problems with an insufficient number of housing units. Japan has not, however, developed a housing market with a reasonable number of quality units. Average homes in Japan are small, only about half the size of homes in the United States, and extraordinarily expensive. Similarly, wood products in Japan are very expensive by world standards.

This does not have to be the case. Constraints on Japanese home sizes and costs are not primarily the natural consequence of crowded island conditions. In fact, Japan's population is comparable to that of New Jersey's. Japan's housing situation is largely the result of policies which intentionally limit consumption, increase costs, protect inefficient uses of land even in the most congested cities, and impede the importation of quality and competitive foreign products.

Opening the Japanese wood products market would substantially reduce the cost of wood products to Japanese consumers and provide them with a high-quality, reasonably-priced product which is desired in Japan. Opening Japan's market would help Japanese consumers, dramatically increase consumption of wood products in Japan and benefit efficient U.S. producers. This is precisely the type of market opening initiative which the United States should be engaged in.

Mr. Chairman, I speak for an industry which stands united in its request for access to the Japanese market. We are a competitive industry, with access to the Japanese market we could dramatically increase exports for all products of our industry that are produced in virtually every state in the union. What we want is an opportunity to do so.

We look forward to working with the Administration and the Congress over the next year to effectively open the Japanese market.

Thank you for the opportunity to testify. I would be happy to answer any questions.

PREPARED STATEMENT OF ROBERT L. DONNELLY

Chairman Baucus, members of the Committee, I am Bob Donnelly, president of Contact Lumber and chairman of the forest products Industry Sector Advisory Committee. These two positions have given me a perspective on Japan's wood products market and the Super 301 process, which have led me to conclude that we must open the Japanese wood products market in the upcoming Section 302 negotiations.

Put simply, the United States should be selling more solid wood products to Japan and is fully capable of doing so. The U.S. industry would be selling more if the market were allowed to operate, but instead, barriers inhibit imports, increase prices and severely limit consumption of wood products.

As Chairman of the ISAC, I am familiar with the concerns of our industry, an industry which is represented in virtually every state of the union. These firms, and the people who run and work in them, are some of the best and most efficient wood products operators in the world. We can, and want to, compete.

We know that there is a strong and growing demand for wood products in Japan, a demand which is inhibited by a number of factors. I have no question that the barriers identified by Steve in his comments exist, because our industry has to deal with them. I know that our mills are efficient, and they want to sell. I know that there is a huge potential market there, but these impediments continue to prevent us from attaining our real potential. The meaning of all this is obvious and immediate: Japanese barriers mean less jobs at home; they mean a lack of sales and a lack of investment.

Most of us in the U.S. are more than willing to import competitive, quality Japanese products. And we see few if any barriers to our importing Japanese products.

This simply makes it impossible to explain to competitive companies why their exports to Japan are impeded by barriers which hurt them and the Japanese consumer.

Periodically, members of our ISAC meet with various Administration officials to discuss the industry's perspective on various trade initiatives. Lately, we have spent a lot of time addressing the Uruguay Round of GATT negotiations. In that process, the question arises as to what the industry is willing to give up to get tariff or other concessions in the GATT.

As chairman of the ISAC, I can tell you that we have very little to give up. Our wood products markets are open. Furthermore, it seems to me that it misses the point to ask what we are willing to give up. The question should be whether a foreign market is closed; if it is, it should be opened. Around the world we see tariffs on wood products of up to 100%. In Japan, there are tariffs of up to 20% on wood products with an effective rate of tariff protection several times higher. These are closed markets intended to protect inefficient local industries and impede imports, and they should be opened. There should be no quid pro quo for opening closed markets.

This global perspective is what leads me to support the Super 301 process. The fact of the matter is that the United States faces closed markets in many sectors in many countries. Given the fact that our markets, overall, are among the most open in the world, it is unreasonable to ask what will the United States give up to open foreign markets.

The United States has spent forty years as a world economic leader making trade concessions so that the world economy could continue to grow. At the time, it was reasonable and appropriate that we did so. We can no longer afford to do that. Super 301 is an effective tool—leverage—that can permit the United States to move forward with market opening without being in the position of having to make further bilateral concessions which simply don't exist in order to end unfair trade barriers.

Super 301 is a clear statement to competitive industries in the United States and to the world that the United States Government is insistent about opening closed, protected markets, through bilateral negotiations. With this in mind, I am enthusiastic about working with the Administration in using the Super 301 process to gain real access to the Japanese market, and to address Japanese forest products protectionism.

Like Barry and Steve, I am concerned that a narrow or technical approach to the Section 302 investigation and negotiations will result in the elimination of only narrow or technical barriers, with no real effect. Thus, it was very important that the Administration's self-initiation made it clear that the case will seek to address the multitude of barriers, including tariffs, which act as a web to deny us effective entry to the Japanese market. This is real progress.

In the next several months, the industry will work with our Government to provide any additional information that may be necessary concerning the Japanese barriers, but throughout this process, we must keep clearly in mind the need to address the Japanese barriers broadly. We know we have a competitive product. We know that a great demand exists. In the end, if there are not significant improvements in exports, we can be fairly assured that it is because we have not, as a practical matter, eliminated the group of barriers which act as an effective impediment.

As Chairman of the ISAC representing our industry's trade policy concerns, I want to take this opportunity to thank this Committee, the Congress, and the Administration. The U.S. Government is attempting to focus on the barriers to wood products around the world, and particularly in Japan. This must happen if there is to be any progress.

In focusing on those barriers, we are convinced that the Government will conclude that Japan does maintain significant barriers to protect its inefficient industry and that these barriers injure competitive U.S. producers and Japanese consumers. Through this process of identification, we are hopeful that real progress can be made at eliminating those barriers, increasing Japanese consumption of wood products and increasing U.S. exports of wood products to Japan.

As Barry indicated, that is our goal, and the industry is committed to achieving that goal.

Prepared Statement of Alan M. Dunn

Good afternoon, I am Alan M. Dunn, Deputy Assistant Secretary for Basic Industries of the International Trade Administration of the Department of Commerce. I

am pleased to have this opportunity to discuss with you the subject of Japanese barriers to trade in the wood products area. As you know, the department has recently published its findings in a study entitled *The Japanese Solid Wood Products Market: Profile and Outlook*. First, let me say that every attempt was made to do a thorough and insightful analysis of the Japanese market and consumption patterns. It is our hope that this study will prove to be a useful tool to U.S. exporters and negotiators.

The increase in solid wood products exports to Japan in recent years is one of the more significant success stories regarding U.S. trade with Japan. In 1985, U.S. exports of solid wood products to Japan were valued at $1.1 billion. By 1988 such exports were valued at approximately $2.2 billion—a 100 percent increase. Certainly, the bilateral market oriented sector specific (MOSS) talks of 1985–88 were a major factor in this increase.

Still, the recent Department of Commerce study indicates that removal of the remaining impediments to trade could significantly increase U.S. solid wood exports to Japan. Before discussing some of these impediments to trade, I would like to point out that the study clearly shows that the U.S. solid wood industry is generally more cost efficient than its Japanese counterpart. This means that expansion of our products in Japanese markets should benefit the Japanese consumer as well as U.S. producers of solid wood products.

A major factor impeding a further increase in exports is the structure of the Japanese tariff schedule. Logs are allowed in duty-free while processed wood products face tariffs of up to 20 percent. This allows the Japanese wood products industry to import duty-free the raw material necessary to produce a value-added product while a similar U.S. wood producer must, in reality, pay a tariff on both the value of the raw material as well as the value-added portion of the product. This can provide an effective rate of protection for the Japanese industry that is more than double the nominal tariff rate.

Another factor is soaring real estate costs, especially in the Tokyo metropolitan area, which have constrained housing starts and, thus, wood usage. In that area, 7 percent of the region remains farmland, taxed at only 1 to 2 percent of the rate levied on residential activity. This complex issue goes to the heart of the Japanese land-use policy. It has been studied for years but remains unresolved. Without land reform (tax, inheritance, etc.) this acreage will continue to be unavailable for housing.

Restrictions imposed by the Japanese Government on wood usage in both residential and nonresidential buildings are an additional impediment to increased exports. Lifting or amending these restrictions could bring the per capita usage of wood in Japan closer to that of other industrialized nations. And, in a related issue, changing the antiquated building and fire codes and outmoded test standards so that fire-retardant treated wood could be used in residential and nonresidential construction would also increase wood usage.

Customs discrepancies and tariff misclassifications are another impediment to trade. One glaring example involves laminated lumber (glulam) which, by its definition, should carry a tariff of 3.9 percent compared to the present rate of 15.0 percent (and only recently lowered from 20 percent).

Another factor which impedes solid wood trade with the Japanese are the Japanese Agricultural Standards (JAS) all wood products used in American-style housing as well as all government financed housing must meet these standards and carry the JAS stamp. U.S. mills may apply and pay for self-certification procedures but this is usually very costly and time consuming. The mills that do not have self-certification approval or approval through JAS-approved foreign testing organizations must go through the additional time and expense of having their products graded in Japan. This is an especially trying situation for plywood producers, often resulting in delays of several weeks.

The Japanese Government also subsidizes many of the costs associated with private forestry such as road construction, thus depressing Japanese log prices. Furthermore, a traditionally complicated and costly distribution system for solid wood products, which has evolved over many years, makes it difficult for foreign producers to market their products in Japan. A concerted effort to understand the system is required if foreign producers are to compete successfully.

Finally, the questionable marketing practices of some third world countries, specifically Indonesia, are causing major market disruptions for Japanese hardwood plywood producers who are rapidly losing share in this market to the Indonesians. As a result, the Japanese are becoming increasingly protective of their plywood market. This means that there is little prospect of tariff reductions on softwood plywood, the major U.S. plywood product.

My more detailed submission lists other impediments to trade and gives more information on the Japanese market for solid wood products. Let me close by stating that I believe that the progress made in increasing exports of solid wood products to Japan can be continued in at least three ways. First, by aggressive negotiations as part of the Super 301 process. The department is committed to actively and fully support USTR in these negotiations. Second, the Uruguay Round of multilateral trade negotiations provides another excellent opportunity to encourage opening of the Japanese market in the context of general world-wide trade liberalization. Third, a resumption of bilateral talks could make our concerns more clear to the Japanese Government and wood products consumers.

The department of commerce stands ready to continue to contribute to all of these efforts. I will be glad to entertain any questions that you might have at this point.

Attachment.

Excerpts From The Japanese Solid Wood Products Market: Profile and Outlook

EXECUTIVE SUMMARY

Japan is one of the world's most densely populated and heavily urbanized countries. The majority of its people live on only 2 percent of its land. Mountainous terrain is a major contributing factor to this high level of population concentration. Governmental land use policies which inhibit the use of large tracts for residential purposes are also a factor in urban areas. For example, land policy reform in Tokyo, where 7 percent of the land is used for farming, would have a major impact on population distribution and could reduce land costs substantially.

Japan's population is growing slowly, reflecting both declining birth and death rates. Japanese life expectancy is among the highest. Of interest to wood producers is the rapid expansion of the population segment that is 15–64 years of age, because it is by far the largest wood consuming group.

Japan's per capita income exceeds that of the United States and its net hourly earnings is the highest of any nation. only the United States has a larger GNP, and Japan's economic growth is expected to exceed chat of the United States and Europe in 1989. The Japanese people save about 20 percent of their income; our people less than 5 percent. Since much of these savings goes into housing, the Japanese propensity for saving would bode well for its housing industry were it not for exorbitant land prices.

Japanese Consumption of Forest Products

Japanese wood consumption per capita is only about one-quarter of that in the United States and lower than that of most other developed nations. Given the strength of Japan's economy and the Japanese preference for wood housing, the levels of consumption are surprisingly low. This is attributable both to constraints on domestic consumption of wood and impediments to imports. Wide fluctuations in wood usage in Japan are due mostly to variations in housing construction, the major end use market for wood. About three-quarters of the lumber consumed in Japan is used in construction, with 60 percent of this utilized in residential construction.

The general trend, especially in nonresidential construction, has been away from wood and toward concrete, steel, aluminum, plasterboard and other wood substitutes. Numerous building and fire codes which restrict the use of combustible materials on building exteriors are important factors in this trend, as they directly inhibit wood consumption. This trend away from wood is partially responsible for increased labor costs and a shortage of skilled labor to build traditional Japanese (post and beam construction) wood houses. Together with other restrictions detailed in this report, the affect has been to artificially increase the cost of wood and wood frame construction, and foster a growing dependence on nonwood materials.

Japan's homebuilding industry is second in the number of housing starts per year only to that of the United States, and housing starts per capita in Japan have been greater than in this country in recent years. An offsetting factor in the demand for building materials is the declining average size per unit in Japan. The average Japanese dwelling unit is only one-half the size of the average unit in the United States. High materials and escalating land costs are largely responsible for a trend toward apartment buildings which consume far less wood per unit than houses.

In contrast to the general trend, the average size of the wooden homes built in Japan have increased over the last several decades. However, over the same period starts of wooden homes have declined from 70 percent of all housing starts to only

40 percent. High material costs, land prices and building codes have contributed to this decline, as has the aforementioned shortage of skilled labor.

Numerous housing surveys have shown that the Japanese still prefer wooden housing, and would use far more wood for this purpose were it not for these obstacles. The government is well aware that cramped space and soaring housing costs have created a difficult situation in this affluent nation. At least six initiatives have been undertaken by the Japanese Government to increase wood usage. Some of them are: subsidies for wooden schools, low interest loans for wood-based housing, and aid for wood construction in less-populated areas.

Japan's Housing Loan Corporation (HLC) sets specifications for the construction it finances (38 percent of total housing starts in 1988). Because of restrictive HLC construction specifications which inhibit the use of wood products, U.S. housing experts have encouraged HLC to build a project in Kobe using U.S. 2x4 housing specifications; when the project is completed another similar project in that country is to follow. Several years ago, Summit House, another showcase U.S. project, was built in Tokyo.

While there are obstacles in the construction of 2x4 housing, such as wood grading (wherein a special government certification must be obtained) rigorous inspections of wood housing, and other disruptive delays, 2x4 housing is gaining slow but steady acceptance in Japan. It now accounts for 3 percent of total housing starts, in spite of the conservative nature of Japanese consumer; i.e., their preference for traditional wood species and sizes in housing construction. The advantages of 2x4 housing over traditional Japanese wooden post and beam home construction are greater strength, lower cost, and shorter construction time. Prefabricated housing (mostly in urban areas) is another segment of the housing market where wood, specifically 2x4 construction, is gaining slow acceptance. Reluctance of Japanese builders to use 4x8 panels will require extensive education and standards modifications before it is allayed. Their preference is for the traditional 3x6 plywood sheets, with 3x6 framing spaced 18 inches on center.

Wooden housing is projected to increase slightly as a percentage of total housing starts, although the start rate is to remain essentially flat for the next decade or so. U.S. 2x4 housing may increase to 5 percent of total housing by the year 2000.

Japan's second major wood-consuming industry is the prosperous and growing paper and pulp industry. It is expected to utilize more wood chips and wastepaper in the years ahead. other major wood-consuming industries in Japan are home improvements, furniture, a growing do-it-yourself industry, and material handling products (crates, boxes, pallets, containers, etc.).

Given relatively stable per capita wood usage, continued prosperity, and slow but steady population growth, Japan's wood consumption should grow by 7 or 8 percent by the turn of the century. Elimination of barriers would substantially increase both total wood consumption and U.S. exports to Japan.

Japan's Forest Resource

About three-quarters of Japan's total land area is steep mountainous terrain, and approximately two-thirds is forests. The diversity of its climate gives rise to virtually all types of forests.

The Japanese have long recognized the importance of forest management. Laws regarding care of the nation's forests go back to the last century. Legislation provides for the modernization of forest management, improvement of technology, and rationalization of the wood products industries. The Forestry Agency of Japan manages the national forest and gives guidance and financial assistance to private foresters. Nearly one-third of Japan's forestland is national forest, almost all of which is under the control of the Forestry Agency. The national forests have, in recent years, been incurring increasing costs while harvests have been decreasing for both economic and environmental reasons. This situation has resulted in a significant budget deficit which was estimated in a Cintrafor study (University of Washington) to be as high as $200 million. This appears to be in violation of the National Forest Service Account Law, and is one of a number of government subsidies discussed in the study.

Another 60 percent of the Japanese forest land is privately owned, with the remainder being owned by public entities (prefectures, cities, and towns). Most private forest land is held in relatively small parcels. The largest private forestland owner in Japan, by comparison, possesses only a small percentage of the holdings of major U.S. forest companies.

Japan increased its wood consumption by nearly 10 million cubic meters between 1986 and 1987 and nearly 70 percent of that demand was supplied by imports. As the Japanese housing industry has recovered from the recession of the early 1980's,

domestic log production has not kept pace, largely due to appreciation of the yen in relation to U.S. and Canadian currencies which has made the Japanese logging industry noncompetitive with the U.S. industry in terms of cost. In addition to this currency exchange shift, Japanese wood producers face the underlying problems of harvesting in mountainous terrain, and of escalating labor costs. At present imports already underprice Japanese logs. To at least partially offset these high logging costs, the Japanese Government provides an array of forestry and logging subsidies.

Projections by the Japanese Forestry Agency call for the domestic industry to provide 40 percent or more of Japan's wood needs by 1994 and 43 percent or more 10 years later. These projections seem overly optimistic in view of the ongoing problems of Japanese log producers, particularly in view of the increasing concern of the Japanese people over environmental issues. A more realistic expectation would be that domestic supplies will account for about 35 percent of Japan's needs in the years ahead.

Japan's Wood-Based Industries

Between the end of the Second World War and the early 1970's, Japanese wood consumption increased more than six-fold. Wood demand then remained essentially flat during most of the remainder of the 1970's before falling almost 20 percent during the economic recession of the early 1980's. Beginning in 1986, wood consumption began to increase again, although it has still not reached the level of 1973. Most Japanese wood consumption goes into lumber, followed by paper and pulp, and plywood. Since the early 1970's, the percentage of total Japanese wood consumption accounted for by solid wood usage has dropped, mostly because of lower demand for lumber and plywood in construction applications.

Japan's lumber industry can be considered as two semi-distinct industries; one consisting of small to medium-sized custom mills which process mostly domestic lumber for local markets and the other consisting of larger sawmills that utilize imported logs, cants, and roughly cut lumber. The latter group of sawmills more closely resembles U.S. sawmills, although it consists of small relatively high cost operations by U.S. lumber mill standards. The largest Japanese sawmill produces only about 6 percent of the output of the largest U.S. sawmill. In addition to residential construction, other significant markets for lumber are packaging and furniture.

Despite increased Japanese wood consumption in recent years, some of Japan's solid wood products are facing economic difficulties because of high costs, stagnant domestic markets, a shortage of skilled labor, rising imports, and increasingly scarce raw materials. The plywood industry has become especially vulnerable due to the dramatically rising volume of subsidized and unfairly traded plywood imports from Indonesia, which currently comprise about 20 percent of domestic consumption compared with 0.3 percent in 1982.

Within the last few years, Japanese lumber and plywood producers have been working to improve productivity and cut manufacturing costs. The use of technical advances such as laser scanners, c0mputercontrolled saws, and adjustable gang edgers has been increasing in many mills, and inefficient mills have been closed. In spite of these changes, U.S. mills remain much more cost competitive.

The available cost data suggest that manufacturing costs for Japanese lumber and plywood operations are significantly higher than those for U.S. operations. Small- to medium-sized Japanese sawmills' variable manufacturing costs were estimated to average $600 per NSF in 1986 while the same costs for the larger Japanese sawmills were $485 per MBF. By comparison, the West Coast U.S. sawmills' variable costs averaged $195 per MBF, while surveyed U.S. sawmills reported costs ranging from $187 to $337 per NSF. Lower U.S. costs are attributable to higher mechanization, lower wage rates, product specialization and lower energy, land, and wood costs.

It is difficult to evaluate accurately these sawmill industries purely on the basis of manufacturing costs since the two countries' industries differ so much. Generally, Japanese sawmills are smaller, operate more slowly, and cut a larger variety of sizes than do American sawmills. U.S. mills, on the other hand, focus more on productivity and manufacture more specialized sizes. Still, the magnitude of the cost differential and the fact that the data also suggest lower variable costs in those U.S. mills sawing Japanese sizes and grades compared with similar mills in Japan, indicate that the U.S. mills are clearly more cost efficient. The recent growth in Japanese consumption of imported North American lumber and the interest some Japanese companies have expressed in buying U.S. (and Canadian) mills strongly supports this evaluation.

One area of concern to some U.S. exporters is two-tier pricing, defined as a situation whereby prices for similar products differ by other than normal market forces. In order to effectively evaluate two-tier pricing in Japan, it is necessary to find a

product or class of products manufactured in both countries which are essentially the same in appearance, grade, size, length, species, etc. The only products which closely meet this criteria are "baby squares" manufactured domestically from imported North American logs and also imported from the United States and Canada. Analyzing the pricing of these products is somewhat complicated, however, by the fact that there really is no standard grade or species for "baby squares." Length is one of the most critical determinants of the price of baby squares. Japanese mills generally pre-cut logs to specified lengths most in demand, e.g., 3 meters; while some North American mills tend to produce random lengths. These North American products must be trimmed back to appropriate lengths for the intended end use, resulting in product waste. Normally, this type of random length production is priced at a lower level to compensate for this "loss." Price movements for domestically-manufactured baby squares and imported baby squares tend to move in the same direction indicating that they are responding to the same market forces. The major price differences between the various types of baby squares were shown to be attributed to differences in species and length. Therefore, the available evidence does not appear to support the conclusion of two-tier pricing in Japan.

Japan's plywood industry is faced with substantial competition from Indonesia's subsidized plywood industry at present, and is further threatened by Malaysia's productive capacity. Indonesia accounts for virtually all of the plywood imported into Japan. As a result of this and of stagnant domestic plywood demand, Japan's plywood industry continues to contract. Many of the remaining facilities are modernizing or redirecting production to new product lines such as laminated veneer lumber (LVL) often with government assistance.

Most plywood consumed in Japan goes to construction or furniture. virtually all of the plywood manufactured or used in Japan is hardwood, primarily produced from lauan logs. Indonesia and Malaysia were the primary sources of such logs, but a complete ban by Indonesia coupled with restrictions on log exports by Malaysia further threaten Japanese plywood producers. There have been some experiments using softwood species from North America, New Zealand, and the U.S.S.R. but the Japanese market has been slow to accept these products.

In addition to these barriers, an important factor inhibiting further growth of U.S. plywood sales to Japan is size variance. For years, Japan has used mostly 3x6 panels in construction and continues to use this size even in much of the American style 2x4 homes being built. The standard size for plywood in the United States is 4x8. It is very expensive to retool American plywood mills to produce the 3x6 size and there is a risk in such retooling. Thus until Japanese buyers determine that the 4x8 module provides advantages over the traditional 3x6 module—which is slowly happening—Japanese demand for U.S. plywood is not expected to expand very rapidly.

Variable cost comparisons of the American and Japanese plywood industries are shown in this report, but again comparisons must be drawn with consideration for product value and specifications. The Japanese industry is a hardwood industry producing plywood for both structural and decorative purposes. The American industry is primarily a softwood industry with most of its output going to structural applications. Nevertheless, the data suggest that in the area of structural plywood, when size and appearance differences are not considered, the United States is the low-cost producer. For small- to medium-size Japanese plywood mills, variable manufacturing costs averaged $281 per thousand square feet in 1986. For U.S. West Coast Douglas fir sheathing plywood mills, the same costs were averaging $132 per thousand square feet, while the surveyed U.S. plywood mills reported variable costs ranged from $133 to $159 per thousand square feet.

The Japanese distribution system for solid wood products is a complex one built upon tradition, service, loyalty, personal relationships, and financing by suppliers for customer purchases. The promissory note system is the predominant method of financing purchases. At each stage the intermediate buyer resorts to smaller lots, maintains inventory, or provides some other service for his customers. He then finances their purchases for an average of 3 to 6 months. Cash purchases are not common. This system reinforces the mutual dependency and relationships established between buyer and seller. It helps develop a situation wherein all parties work to keep the existing system functioning harmoniously since a disruption in any one part of the system would affect all other segments.

This multilayered network certainly adds considerably to the consumer cost. Interest, labor, land cost, and profit margins are added to the price at each stage of the process. It has been argued that the multiple stages of the current distribution process are unnecessary and excessively add to the cost of wood to the end user. Surely such costs are greater than costs of distributing solid wood products in this

country. As a result of this system, the higher cost structure of the Japanese processing industry and other barriers, the price of wood products to the Japanese consumer is much higher than the cost of similar wood to U.S. consumers.

For several years, various government panels have looked into ways of streamlining the system, but this has proven very difficult. Nevertheless, the distribution system has begun to change, due largely to the increase in lumber imports, which can be transported in small lots, and changes in banking whereby regional banks are providing letters of credit for smaller buyers. Still, the system imposes marked price increases. Some buyers are choosing to forego the security of the existing system and are buying directly from U.S. producers. In addition, some U.S. and Canadian producers are penetrating the Japanese distribution channels. By learning the needs of downstream consumers, American companies can provide the services once provided by Japanese "middlemen" and thus capture additional profit margins when they can provide those services (or more attractive substitutes) in a cost effective way.

High shipping costs, which are now estimated to account for about 30 percent of the delivered price for U.S. lumber in Japan, are another area of concern. These costs are partially held in place by the existence of a legal shipping cartel. In addition, large volumes of goods flowing to Japan from the United States have driven up the market for shipping services.

Barriers to Trade

Driven in large measure by a weaker dollar and the cost competitiveness of the U.S. industry, U.S. exports of solid wood products to Japan have increased over the past several years. Progress made at the Market Oriented Sector Specific (MOSS) talks, which significantly reduced many tariffs and also provided some other market opening actions, was another major factor in increasing exports. Nevertheless, both tariff and nontariff barriers remain in certain areas which impede (or eliminate) the movement of U.S. solid wood exports to Japan. To date U.S. efforts to continue bilateral negotiations have not met with any success, despite Japan's earlier commitment to continue the MOSS discussions. Generally, given the difficulties faced by segments of Japan's solid wood industry, the surge in imports and the political unpopularity of the MOSS process within the affected sectors of Japan's industry, it is unlikely that any further concessions will be forthcoming unless additional U.S. efforts are made. Such concessions would only be attained if there were a clear incentive or at least the inclusion of these barriers in the high priority of issues to be resolved by the U.S. and Japanese Governments.

Most solid wood products enter Japan with a duty ranging from 0-10 percent. On a few products, primarily further processed products, rates as high as 20 percent are levied. An overview of the Japanese tariff schedule reveals an issue which greatly concerns U.S. wood product manufacturers—tariff escalation and the resulting higher effective rate of protection—that is, high Japanese duties on virtually all further processed goods while raw materials receive duty-free entry. This tariff structure results in a situation where Japan's imports are disproportionately weighted toward raw materials, particularly given the cost noncompetitiveness of the Japanese processing industry.

Another tariff-type problem has to do more with classification than the duty rate per se. Glulam is misclassified under section 4412 (harmonized system) and is assessed a duty of 15 percent (and has been assessed a duty as high as 20 percent) when it clearly should be classified under 4418 with a duty of 3.9 percent. Similar tariff classification problems have arisen with laminated-veneer-lumber and other similar products. Barriers of this type are particularly harmful because they impede the U.S. industry's efforts to market new technology and further processed products which are critical in keeping a basic U.S. industry competitive.

In addition to the specific tariff and tariff-related issues contained in the report, another way of evaluating the impact of tariffs is the "Effective Rate of Protection," which analyzes the nEt impact of a tariff when the importing country imports both the raw material for a particular product and the finished product itself at different duty rates. In the case of solid wood duties in Japan, both raw logs and finished wood products other than several species of sawn lumber are imported at different duty rates. Softwood lumber and plywood are used as examples indicating the high degree of protection afforded to Japan's solid wood products industry, protection more than twice the nominal rates of tariffs.

Standards are also a major concern of the U.S. wood products industry. Although progress has been made, it is still difficult and time consuming to get the JAS (or JIS) certifications necessary for new products to be used in government-financed building. In addition, products for which standards exist must be reinspected in

Japan unless the exporter has been certified by the Japanese Government. Some American companies have this certification or are in the process of getting it, but this is expensive andtime-consuming. While there is no evidence that the Japanese Government is attempting to limit these certifications, concern has been expressed that they could at some point use this device to limit U.S. exports.

The problem seems to be especially acute for plywood. The existence of the standards per se is not a problem but the shortage of inspectors in Japan is so severe that buyers must wait 3 weeks for inspection. This delay obviously adds extra storage, interest, labor, and other charges. This is especially burdensome to smaller buyers. The situation should be alleviated somewhat when Japan sanctions an American organization to certify production to JAS standards on Japan's behalf—a situation which already takes place for a Canadian organization. In addition, some U.S. producers have experienced problems with the uniformity of application of the Japanese standards.

Japanese building and fire codes are critical to wood consumption. Japanese officials are understandably vary concerned about fire safety due to the high population density and the resulting danger of fires. While the number of fires has been dramatically reduced in Japan, that country still has one of the highest number of deaths per fire, although one of the lowest rates per capita. Nevertheless, some of Japan's building standards and testing standards are obsolete and impede wood usage without a technical justification. While changes have been made, for example the provision to allow three-story wooden structures, present standards still do not encompass all the available fire retardant technologies, prohibit four-story wood buildings, prohibit nonresidential wood buildings, prohibit horizontal fire breaks (effectively excluding wood construction for multifamily housing, the largest segment of the Japanese residential construction industry), and generally do not take into account construction methods which inhibit fire.

Japan has a very complicated system of subsidies which include direct grants, low interest loans, tax incentives, and antibankruptcy measures for the forest products industry. These measures apply both to individual enterprises and to cooperatives and enterprise associations. Many provisions within the tax structure function like investment tax credits to support the upgrading of existing production facilities. Some of these provisions act to keep obsolete, inefficient plants operating. That production could theoretically be replaced, at least in part, by in U.S. products. It should be noted, however, that some of the subsidies, loan and tax provisions which support housing and increased wood use in general, also support consumption of imported wood.

The Japanese deal with bankruptcy in a manner different from the United States. Japan's bankruptcy laws (based on long tradition) are structured to prevent bankruptcies and ameliorate the impact of those that take place, especially for rural areas and small businesses. There are many provisions in Japanese law which seek to prevent or minimize bankruptcy. Both public, mixed public and private, and private funds are used for this purpose, and it is sometimes difficult to segregate private from public funds. One area of special concern is that of chain reaction bankruptcies. Because of the promissory note system, small distributors can be bankrupted the bankruptcies of the other business in the distribution chain. In order to prevent these chain reaction bankruptcies, special loan guarantees, discounted credit, insurance and low interest credit insurance loans to cover receivables are available, thereby protecting many financially precarious operations.

The impact of the aforementioned subsidies, loans and tax provisions on the Japanese industry is not measurable, so it is not possible to quantify with any precision the effect the system has on U.S. exports. Yet there is no doubt that U.S. exports are effected by them.

While Japan has antitrust laws, in practice, exceptions to the laws have allowed for the effective cartelization of the Japanese plywood and lumber industries. On occasion, these cartels have acted in concert to keep imported log prices from the U.S.S.R. low. On other more frequent occasions, industry associations have acted as effective lobbying agents to protect tariff and nontariff barriers.

The forest products MOSS talks were intended to liberalize market access to the Japanese market, and in fact did facilitate some increase in market access. On the other hand, to protect its industry from the increased competition anticipated as a result of the MOSS market opening initiatives, Japan adopted a 5-year, 150 billion yen subsidy program (including 50 billion yen of anticipated grants). It is not known to what extent these funds have been actually disbursed. In addition, the U.S. industry would like Japan to abide by its commitment to engage continuing bilateral negotiations.

International Trade

In contrast to Japan's large overall trade surplus, its wood products industry has a growing negative trade balance. Japan's wood products exports consist mainly of further processed products such as panel products, wooden cases, other finished articles, as well as lumber. In contrast, the United States is a major supplier of less processed materials, such as softwood logs and lumber to Japan.

Hardwood logs are imported by the Japanese from Africa, Latin America and North America, but the bulk of these logs are imported from the neighboring Southeast Asian countries of Malaysia and the Philippines. Japan has the second largest plywood industry in the world primarily producing hardwood plywood. The principal suppliers of Japan's hardwood plywood imports are Indonesia, South Korea and Taiwan. Softwood plywood has not been commonly accepted by the Japanese market. Canada, the United States and Indonesia are the largest suppliers of softwood plywood to the Japanese.

Most of the Japanese wood products output is directed to the domestic market. Exports from Japan's plywood industry accounted for less than 2 percent of plywood production over the past decade and lumber exports accounted for an even smaller portion of production. During the past 10 years, imports of solid wood products to Japan have advanced at an average annual rate of 0.7 percent while exports have declined at a rate of 10.5 percent annually.

There are a number of factors which point to increased wood consumption in Japan, however, the future pattern of Japan's wood products trade is far from clear. Some of the critical factors include: Japan's ability to harvest maturing wood resources in a cost-effective manner; Japan's ability to restructure lumber and plywood operations to make them more cost competitive; the effectiveness of the joint Japanese Government and U.S./Canadian wood products industries' efforts to encourage lasting change in wood consumption patterns; the ability of Japan's wood products industry to ensure adequate supply of logs; the United State's ability to effect a change in impediments to wood products trade; and, the ability of the United States and other countries to capitalize on the present window of opportunity.

IMPEDIMENTS TO INCREASED SOLID WOOD PRODUCTS EXPORTS TO JAPAN

While U.S. exports of solid wood products to Japan have increased rapidly in recent years, there is still an opportunity for further dramatic growth. Such growth, particularly of further processed wood products, is impeded, however, by several factors. Increased exports resulting from their removal or modification would generally benefit the Japanese consumer as well as U.S. producers. The impeding factors are:

- Generally, *tariff escalation* in Japan (higher tariffs on more fully processed goods) impedes all more fully processed wood product imports and results in effective rates of protection more than twice the nominal rates.
- *Wood use restrictions.* Japanese per capita consumption of both lumber and building panels is considerably lower than that of other developed countries. This is partly the result of government restrictions on the use of wood on both exterior and interior construction of multistory buildings. These restrictions apply to both residential and nonresidential buildings.
- *Soaring real estate costs,* especially in the Tokyo metropolitan area, have constrained housing starts. In that area, the situation is made worse because 7 percent of the region remains farmland, taxed at only 1 to 2 percent of the rate levied on residential activity. Without land reform (tax, inheritance, etc.) this acreage will continue to be unavailable for housing.
- *Forestry subsidies.* The Japanese Government subsidizes many of the costs associated with private forestry, thereby artificially depressing domestic log prices. For example, road construction costs on private lands are partially shared by both the Federal and prefectural governments and the Japanese National Forests are running a deficit on timber operations reportedly in the order of $200 million.
- *High distribution costs.* A complicated and costly distribution system that results in increased wood costs to Japanese end-users, thereby discouraging consumption of these products. This system is clearly more costly than the distribution system in the United States.
- *Tradition.* A long history of Japanese Government-industry relations which has tended to keep marginal and uncompetitive firms in business and at times has influenced the domestic prices of wood products. Examples are government subsidy programs in the form of loans, grants, and below market rate insurance premiums, including 150 billion yen of counter-liberalization subsidies (up to 50 billion yen in

grants) authorized to ease the increased competition brought about by the MOSS concessions.

• *Customs discrepancies and misclassifications.* The most glaring example involves laminated lumber (glulam) which should carry a tariff of 3.9 percent compared to the present rate of 15.0 percent (and tariffs have ranged up to 20 percent).

• *JAS certification and procedures.* U.S. sawmills may apply and pay for self-certification procedures. The mills that do not have self-certification approval or approval through JAS-approved Foreign Testing Organizations must go through the additional time and expense of having their products graded in Japan.

• *Building and fire codes* unreasonably restrict the use of wood in the light of available test data. For example, three- or four-story apartment buildings allowing a single family on each floor are not allowed, effectively prohibiting the use of wood in stacked multifamily homes, the largest segment of the residential construction industry.

• *Discriminatory standards and test procedures* do not permit the fair evaluation of many solid wood products and effectively discriminate against other proven wood products. Some examples are the lack of reasonable standards for the structural use of Oriented Strand Board (OSB), Japanese standards for the size of nails actually discourage usage of U.S. lumber, nail-bearing standards in OSB which discriminate against OSB vis-a-vis plywood, the prescriptive nature of Japanese standards, and the failure to recognize performance standards such as Machine Stress Rated lumber.

• *Obsolete tests and nonuniform application.* Fire retardant-treated lumber which actually extinguishes the test flame before the allotted burn period in the Japanese test protocol has been reached, is excluded from the market because its capabilities render the Japanese test obsolete. Further, there is a lack of uniformity in application of Japanese standards with different implementation for traditional than for modified construction techniques.

• *Unfair competition.* Subsidized and unfairly traded Indonesian hardwood plywood has also inhibited efforts to reduce the tariffs on softwood plywood.

• *Tolerance of cartels.* The Japanese Government has taken a tolerant view to combinations in the wood products industry which can be used to limit competition and to lobby effectively for protection for the Japanese industry. On occasion, these cartels and other industry associations have colluded in attempts to limit import prices of some wood products.

• *Reluctance to continue MOSS talks.* The MOSS talks on forest products were effective in significantly lowering Japanese tariffs on wood products. On the other hand, despite a specific commitment to do so, Japan is currently refusing to enter into further bilateral talks.

PREPARED STATEMENT OF STEPHEN M. LOVETT

I am Steve Lovett, vice-president of international trade of the National Forest Products Association. Today, I would like to review some of the barriers which continue to protect the Japanese wood products market from free competition from U.S. producers. First, however, I would like to add my comments to Barry's in noting the critical role which this sub-Committee and the Department of Commerce's recent study of the Japanese solid wood products market, requested by Senator Packwood, have played in this process. The determination to identify and address Japanese barriers by the U.S. Government has been pivotal in bringing the industry to a point where we hope to move forward to real market opening.

It is also worth remembering at the outset that the U.S. wood products industry is the world's most efficient; the U.S. industry is far more cost competitive than the Japanese industry. As Barry indicated, we are not seeking protection. Barriers to the Japanese market, that are intended to protect the relatively inefficient Japanese industry, impede imports from the United States, increase the cost of wood products to the Japanese consumer and depress demand for wood products.

Without these barriers, U.S. exports of processed wood products could increase by between $1 and $2 billion annually. Tens of thousands of U.S. Jobs would be created. The U.S. Trade Representative has indicated that this is a U.S. trade priority. The U.S. Government's actions in designating forest products as a priority, and the Commerce Department's study to document Japan's practices, will find strong support in the USTR's 302 investigation. NFPA intends to work with the Administration to insure that the upcoming investigation and negotiations yield real results.

I would like to review the barriers in a little more detail so that the Committee can understand what issues we believe should be addressed in the Section 302 investigation and negotiations if this effort is to be successful in gaining real access.

—Standards barriers: Japan has a system of arcane codes and standards which act as an effective barrier to the use of many wood products and to the importation of wood products. The U.S. industry fully recognizes the need for reasonable standards to ensure the adequate and safe performance of products, but as a rule, Japan's standards and codes are not based upon the performance of products and ignore the demonstrated performance characteristics of U.S. products and wood products construction techniques. Thus, while Japan bans, for example, the building of four story wood residences or the building of stacked apartments made out of wood, these restrictions are not technically justified. Rather, these restrictions tend to act merely as barriers to the consumption and importation of wood products.

NFPA's submission to the USTR outlines other such practices, and we will continue to work with USTR to identify Japan's standard barriers.

—Customs misclassification of wood products: For example, while the Harmonized System of Tariff Classification clearly and explicitly states that structural laminated lumber is properly classified in a category subject to only a 3.9% tariff, Japan has classified it in a category subject to a 15% tariff. This restriction is targeted very directly at the U.S. laminated wood products industry which currently leads the world.

—Tariff escalation: By applying no tariff to raw materials and escalating tariffs on value-added products, Japan creates a barrier which is far more effective at blocking the importation of value-added products than the nominal tariff would suggest. This practice, normally engaged in by developing countries to protect infant industries, is totally unacceptable in Japan. NFPA believes that it is imperative that the upcoming negotiations seek to redress Japan's tariff escalation. Otherwise, Japan's effective rate of protection on value-added products, often more than twice the nominal rate, will continue to substantially impede wood products imports even if other barriers are eliminated.

To put this practice in perspective, Japan's tariff escalation allows Japanese sheathing plywood producers to be more than 25% less efficient than U.S. producers and still be fully protected by the tariff, even though the tariff on this plywood is only 10%. Obviously, this tariff structure is far more effective as protection than the tariffs alone. Japan's tariff structure itself has become a non-tariff barrier which should be addressed in the Section 302 investigation and negotiations.

—Subsidies: The most troubling Japanese wood products subsidies have been the more than $1 billion in counter-liberalization subsidies authorized to offset any market opening effects of concessions made during the MOSS forest products talks. In other words, while Japan entered into an international agreement to lower tariffs and modify standards, it subsidized its mills in an attempt to maintain the full level of preexisting protection. This is totally unacceptable.

In addition, dozens of small, medium and large Japanese government subsidy programs have been implemented to protect, and keep operating, otherwise noncompetitive Japanese mills and noncompetitive log harvesting operations. The result is that competitive U.S. mills lose sales to otherwise noncompetitive mills. In broader terms, the Japanese subsidies seek to prevent the U.S. industry from realizing its comparative advantage. The Section 302 process should be used to attempt to further identify the extent of Japanese subsidies and to eliminate those subsidies.

In addition, NFPA believes that the Administration's Structural Impediments Initiative should address: anticompetitive practices which have allowed the Japanese wood products industry to cartelize the market; the restricted distribution system which increases costs (thus inhibiting consumption) and has a discriminatory effect on imported wood products, and; restrictive land/tax policies which also act to severely limit consumption of imported wood products.

With respect to this last point, I would point out that the U.S. is joined in their call for reform by the OECD Ministers, who at their last meeting adopted a communique indicating that Japan should engage in structural reforms, including "the removal of legal and other impediments to, as well as the review of taxation of land for, the more efficient use of land." While this is a long-term goal, NFPA believes that it should be a focus of the Administration's Structural Impediments Initiative. No other single reform would have such a dramatic effect on the standard of living of people in Japan and so dramatically increase the consumption of wood products and other products than land reform in Japan.

Japanese mills are not competitive, the Commerce Department study found that Japanese sawmill costs, on a per volume basis, exceed U.S. costs by about 150% to 200%. While, as the Department of Commerce observed, simple cost comparisons do

not account for all of the intricacies of competition in the Japanese wood products market, there is little question that U.S. mills are *very* cost competitive in Japan. With free access, U.S. mills would sell more products.

Despite the relative noncompetitiveness of the Japanese industry, on a percentage basis, Japan imports far less wood products than its timber resource would justify and far fewer processed wood products than other nations. In addition, despite the Japanese people's preference for wood products, Japanese consumption of wood products on a per capita or a per dollar of GNP basis tends to be much lower than in Europe or North America.

Viewed in another manner, U.S. wood products are shipped around the world, and the U.S. industry uses the most advanced equipment. Comparing the fourth quarters of 1988 and 1987, U.S. lumber exports, for example, doubled to Australia, increased by 83% to Mexico, by 73% to the Caribbean, by 76% to the Middle East, by 12% to Canada, and by only 6% to Japan. The problem is not our ability to compete.

As an industry, we know that there are many things which must be done to effectively penetrate the Japanese market, and we are working diligently to do these things. The existence of the barriers we have listed however, demonstrate that we will never effectively gain access to Japanese markets without eliminating these trade barriers. Japan's interlocking web of barriers keeps American products out by using unusual product standards and discriminatory building codes, subsidizing its inefficient producers, setting high tariffs and allowing business practices that prop up prices and discourage the use of wood.

NFPA was very pleased to see that the Administration's self initiation of the Section 302 investigation will address the network of Japanese barriers in broad terms. We look forward to working with USTR, the Department of Commerce, the Department of Agriculture and other members of the Administration in further identifying Japanese barriers and finding methods to eliminate those barriers. Our ultimate goals remain: increasing Japanese consumption of wood products, improving Japanese consumers' access to U.S. wood products and selling more solid wood products to Japan. NFPA is confident that the upcoming negotiations will be successful in reaching these goals.

PREPARED STATEMENT OF DONALD M. PHILLIPS

Mr. Chairman and Members of the Subcommittee: My name is Donald Phillips and I am Assistant United States Trade Representative for Industry. I appreciate the opportunity to appear before this subcommittee to discuss Japan's barriers to United States forest product exports and the Super 301 investigation we recently initiated to examine these practices.

As you are well aware, on May 26, Japan was identified as a priority country and its barriers to trade in the forest products sector were identified as priority practices under the 1988 Trade Act. On June 16, we initiated our investigation of Japanese policies and practices that restrict imports of forest products in order to determine if they are actionable under Section 301 of the Trade Act. To assist in this process, we have requested public comments by July 18. Both our May 26 determination and the subsequent 301 announcement specifically cited technical barriers, or standards, as an area of serious concern. However, our investigation will cover other non-tariff barriers as well.

As a follow-up to our initiation of the Section 301 investigation, we have assembled an interagency team to assess the information at our disposal—which will, of course, include the Department of Commerce study, earlier submissions by U.S. industry, and the responses we will receive to our request for written comment—and to prepare for negotiations. We will be consulting with the U.S. private sector and interested members of Congress as this process unfolds. We hope to have initial discussions with the Japanese on forest product issues in the very near future, although no meetings have yet been scheduled.

Our designation of Japan's barriers to U.S. exports of forest products is the result of a careful review of information gleaned from the intensive discussions we have conducted with the Japanese government in recent years, as well as information submitted by U.S. industry. Forest products is an area of particular interest from a trade policy perspective for a number of reasons:

(1) We believe U.S. producers have a clear competitive advantage over producers in Japan and the rest of the world for many products in this sector.

(2) Japanese imports of forest products are stifled by a complex array of tariff and non-tariff barriers; moreover, many of these barriers are clearly designed to

discourage imports of high value added products and instead foster imports of raw materials.

(3) The potential for exports if such barriers are reduced or eliminated is great. Even with the limited liberalization achieved in recent years (aided by the upswing in Japanese demand and increased value of the yen) significant gains have been made. U.S. forest product exports to Japan doubled between 1985 to 1988, increasing from $1.1 to 2.2 billion; exports of processed products generally rose at a faster rate during this period. For example, softwood lumber increased from $171 million to $434 million, or over 150 percent. The Department of Commerce estimates that further elimination of barriers could result in additional exports of processed products well in excess of one-half billion dollars annually.

(4) Finally, as is often the case with our trade liberalization objectives, the dismantling of unreasonable barriers to forest products would provide major befits to Japanese consumers. The improvement of housing conditions is a major domestic priority in Japan. Reducing barriers to imported wood products would greatly complement other efforts in this area and help provide Japanese consumers with lower cost and higher duality housing.

The designation of forest products as a Super 301 investigation reflects the long-term interest of this and prior Administrations in removing Japan's barriers to trade in this sector. Forest products were included as one of the Market Oriented-Sector Specific (MOSS) talks held with the Japanese. These talks produced important, if incomplete, results in several areas:

- Tariffs were reduced 30 percent on a number of lumber, plywood, veneer and other processed forest products.
- The Japanese government agreed to develop standards for structural panel products which would allow their use in construction.
- Building codes were revised to permit greater use of 4 x 8 panels.
- Foreign manufacturers are now permitted to participate in the procedures for drafting standards, and can seek JAS (Japan Agricultural Standards) certification.
- Changes in Japanese fire and building codes now permit greater use of U.S. wood products, for example in three story single-family homes.

Despite the progress achieved in the early stages of the MOSS talks, little has been accomplished in recent years. In fact, Japan has resisted U.S. efforts to resume and revitalize these talks. No meetings have been held since August, 1988. I think it is fair to say that the failure of the MOSS talks to yield additional progress was an important factor in the Super 301 determination.

I have alluded several times to the complex array of barriers facing U.S. forest product exports. I would like to outline very briefly some key areas of concern.

- Technical barriers to U.S. exports include dated building and fire codes which continue to restrict the use of wood products based on obsolete tests and discriminatory testing standards. Oriented Strand Board (OSB) and fire-retardant-treated lumber are examples.
- Tariff misclassifications, and generally high tariffs on processed wood products. Products like glulam and laminated veneer lumber have been put in tariff categories assessed 15 or 20 percent duties, rather than in the appropriate categories which have duty rates of only 3.9 percent.
- JAS (Japan Agricultural Standards) certification procedures are time consuming and burdensome to foreign producers.
- Japan's general restrictions on wood use keep its per capita consumption below that of other developed nations.
- A variety of government subsidies to timber owners and processors artificially lowers domestic prices.

We hope to initiate a dialogue with Japan in whatever fora are appropriate on all of these areas of concern, and to include any other practices which have the effect of impeding U.S. forest product exports. The submissions to the USTR by the U.S. forest products industry have been very valuable in this regard, and we look forward to its continued participation in this process.

Our goal is to fully open the Japanese forest products market. We can be flexible as to the procedure we will follow to achieve this objective, as long as it allows us to deal in a substantive manner with the issues of concern. We are eager, however, to begin these discussions soon, and have made the Japanese government aware of our timetable.

Thank you.

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